

Annual Report

**C. Bechstein Pianofortefabrik
Aktiengesellschaft
Berlin**

Financial Statements and Management Report December 31, 2005

C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin
Balance Sheet as of December 31, 2005

Exhibit 1

ASSETS	Dec. 31, 2005 EUR	Dec. 31, 2004 EUR
A. FIXED ASSETS	67,557.54	133,863.78
I. Intangible assets	151,215.50	258,134.92
1 Software	5,000.00	0.00
2 Goodwill		
3 Payments on account		
	223,773.04	391,998.70
II. Property, plant and equipment	6,395,241.80	6,452,145.19
1 Land and buildings	1,663,664.27	1,918,673.42
2 Technical equipment and machines	1,448,581.53	2,885,160.59
3 Other equipment, furniture and fixtures	15,554.24	25,261.13
4 Payments on account and assets under construction		
	9,523,041.84	11,281,240.33
III. Financial assets	197,626.00	68,000.00
1 Shares in affiliated companies	311,000.00	260,000.00
2 Loans to affiliated entities	347,168.56	20,531.29
3 Equity investments	288,195.49	228,900.44
4 Reinsurance claims from life assurance policies	95,705.53	77,235.57
5 Funds		
	1,239,695.58	654,667.30
	10,986,510.46	
	12,327,906.33	
B. CURRENT ASSETS I.		
Inventories		
1 Raw materials, consumables and supplies		
2 Work in progress	1,088,453.15	1,459,227.54
3 Finished goods and merchandise	4,610,393.10	5,110,812.06
	5,466,786.95	4,810,782.66
	11,165,633.20	11,380,822.26
II. Receivables and other assets		
1 Trade receivables	1,266,753.97	2,046,857.39
2 Receivables from affiliated entities	1,683,201.72	2,688,001.72
3 Receivables from companies in which equity investments are held		
4 Other assets	2,030,498.32	0.00
	446,849.35	295,775.72
	5,427,303.36	5,030,634.83
III. Cash, bank balances	508,401.14	2,311,228.33
	17,101,337.70	18,722,685.42
C. PREPAID EXPENSES	166,311.75	260,969.91
	28,254,159.91	31,311,561.66

EQUITY AND LIABILITIES	Dec. 31, 2005 EUR	Dec. 31, 2004 EUR
A. EQUITY	5,787,633.00	4,543,149.00
I. Subscribed capital		
II. Capital reserves	5,467,193.11	3,807,881.11
III. Revenue reserves	4,612,440.28	4,062,676.05
IV. Net profit for the year	1,171,454.88	1,004,079.13
	17,038,721.27	13,417,785.29
B. ACCRUALS	838,958.00	829,626.00
1 Provisions for pensions and similar obligations	59,109.00	0.00
2 Tax provisions	771,430.71	622,947.01
3 Other provisions		
	1,669,497.71	1,452,573.01
C. LIABILITIES	6,697,054.60	9,689,764.09
1 Liabilities to banks	41,000.00	96,266.00
2 Payments received on account of orders	806,690.03	1,707,919.51
3 Trade payables	10,644.50	2,441,756.39
4 Liabilities to affiliated companies		
5 Liabilities to companies in which equity investments are held	258,254.00	0.00
6 Other liabilities	1,732,297.80	2,505,497.37
	9,545,940.93	16,441,203.36
	28,254,159.91	31,311,561.66

C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin
Income Statement for Fiscal Year 2005

Exhibit 2

	EUR	2005 EUR	2004 EUR
1 Sales		27,578,357.65	25,570,412.60
2 Decrease (prior year: increase) in finished goods and work in process		-184,258.68	169,777.28
3 Own work capitalized		487,813.42	809,433.58
4 Other operating income		374,218.04	647,014.49
		<hr/>	<hr/>
		28,256,130.43	27,196,637.95
5 Cost of materials			
a) Cost of materials and supplies and of purchased merchandise	-11,795,731.66 - 445,517.65		-10,516,344.63 - 432,269.08
b) Cost of purchased services			
		<hr/>	<hr/>
		-12,241,249.31	-10,948,613.71
6 Personnel expenses			
a) Wages and salaries	-6,817,450.12		-6,698,643.41
b) Social security, pension and other benefit costs	-1,390,604.40	-8,208,054.52	-1,396,544.17
thereof for old-age pensions EUR 164,821.07 (prior year: EUR 122,471.02)			
		<hr/>	<hr/>
			-8,095,187.58
7 Amortization and depreciation on intangible assets and property, plant and equipment		-1,322,432.67	-1,456,081.76
8 Other operating expenses		-4,683,468.98	-4,986,382.08
9 Income from profit transfers		67,179.93	0.00
10 Income from other investments and long-term loans		14,693.28	2,889.92
thereof from affiliated enterprises EUR 11,250.00 (prior year EUR 866.67)			
11 Other interest and similar income		11,064.05	18,257.56
12 Expenses for loss absorption		0.00	-2,199.74
13 Interest and similar expenses		-644,488.65	-707,428.34
14 <u>Result from ordinary activities</u>		<hr/>	<hr/>
		1,249,373.56	1,021,892.22
15 Income taxes		-59,109.00	-6,816.60
16 Other taxes		-18,809.68	-10,996.49
17 <u>Net profit for the year</u>		<hr/>	<hr/>
		1,171,454.88	1,004,079.13
18 Profit brought forward		0.00	0.00
19 <u>Profit available for distribution</u>		<hr/>	<hr/>
		1,171,454.88	1,004,079.13

C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin

Notes to the Financial Statements for Fiscal Year 2005

General

These financial statements have been prepared in accordance with Secs. 242 et seq. and Secs. 264 et seq. HGB [“Handelsgesetzbuch”: German Commercial Code] as well as in accordance with the relevant provisions of the AktG [“Aktiengesetz”: German Stock Corporation Act]. The Company is subject to the requirements for medium-sized corporations.

The income statement has been prepared using the cost-summary method.

In order to improve the clarity of presentation, we have indicated in the notes whether individual items are related to other balance sheet items and “thereof” items.

Accounting and Valuation Methods

The following accounting and valuation methods, which essentially remained unchanged in comparison to the prior year, have been used to prepare the financial statements.

Purchased **intangible assets** are capitalized at acquisition cost and, if they have a limited life, are reduced by systematic amortization in accordance with their useful lives (three years; straight-line method).

Capitalized goodwill is amortized over a period of four years in accordance with commercial law.

Property, plant and equipment are capitalized at acquisition cost and, if they have a limited life, are reduced by systematic depreciation. The cost of self-constructed assets includes direct costs as well as a proportionate share of overheads.

Depreciation is performed based on the normal useful life using the straight-line method over a period of 2 to 25 years.

Low-value assets not exceeding EUR 410 in value are fully expensed in the year of acquisition with their immediate disposal being assumed. In addition, depreciation on additions to property, plant and equipment is charged pro rata temporis.

With regard to **financial assets**, equity investments and securities are recorded at the lower of cost or net realizable value, while loans are disclosed at nominal value.

Inventories are recorded at acquisition cost, production cost or the lower value on the balance sheet date.

Inventories of **raw materials, consumables and supplies** are stated at acquisition cost. Acquisition costs are calculated on a moving average price based on the inventories last acquired considering the lower of cost or market.

Finished goods and work in process are valued at production cost on the basis of individual product costing derived from the current cost accounting. In addition to the direct cost of materials and direct labor, production costs include appropriate portions of necessary labor and materials overheads as well as manufacturing-related depreciation of fixed assets.

Transportation costs to make the products ready for sale in the Bechstein Centers are included in the valuation of the finished products and merchandise.

Merchandise is recorded at the lower of cost or market.

Inventories are valued using the lower of cost or market principle taking into account the net realizable value.

The changes in inventories reported in the income statement also include disposals of leased instruments recorded under fixed assets and sold during the year under review. The corresponding proceeds are reported as sales.

Inventories were assigned to banks as collateral. In addition, suppliers have retention of ownership as customary in the industry.

Receivables and other assets are stated at their nominal value. Specific bad debt allowances provide for all foreseeable valuation risks. The general credit risk is provided for by a general bad debt allowance.

When calculating the amount of the valuation allowance, incoming payments after the balance sheet date as well as changes in the sales structures and in the terms of payment were taken into account.

Accruals for pensions and early retirement obligations are disclosed at the maximum amounts permitted for tax purposes. The present values were determined on the basis of actuarial principles in accordance with Sec. 6a of the EStG [“Einkommensteuergesetz”: German Income Tax Act]. They are based on an interest rate of 6% and the 2005 G mortality

tables. In general, differences arising from the change in the mortality tables were recognized with effect on income.

Tax accruals and **other accruals** account for all contingent liabilities. They are recorded at the amounts required according to prudent business judgment.

Liabilities are recorded at the amount repayable.

Receivables denominated in foreign currency are valued at the lower of the historical or closing rate. **Foreign currency liabilities** are recorded at the rate on the date of transaction or the closing rate on the balance sheet date, whichever is higher.

Investment grants amounting to EUR 101 k were recognized as income in fiscal year 2005.

Notes to the Financial Statement

Balance Sheet

Assets

Fixed Assets

The development of the individual **fixed asset** items, including depreciation for the fiscal year 2005, is shown in the statement of changes in fixed assets (page 12/13).

Financial Assets

List of Shareholdings

	Currency	Share in capital	Equity	Net income /loss
Domestic	T-EUR	100	50	0
C. Bechstein Finanzservice GmbH, Berlin				
C. Bechstein Centrum Münster GmbH, Münster ¹⁾	T-EUR	51	-4	-104
Foreign				
C. Bechstein Center Nederland B.V., Woerden, Netherlands ²⁾	T-EUR	100	-194	-284
Bechstein CZ s.r.o., Hradec Králové, Czech Republic ³⁾	T-CZK	100	200	-
Bechstein Piano (Shanghai) Co. Ltd., Shanghai, China ⁴⁾	T-USD	10	4.000	-

¹⁾ Relates to the preliminary equity and net income for the year 2005. Annual financial statements as of December 31, 2005 were not yet available at the time these notes to the financial statements were prepared.

²⁾ The disclosures on equity take into account the net income for the year 2004 as well as contributions made by shareholders of EUR 72 k in 2005. As a result, subscribed capital amounts to EUR 90 k as of December 31, 2005.
The net income for the year was taken from the annual financial statements as of December 31, 2004. Financial statements for the fiscal year 2005 were not yet available at the time these notes to the financial statements were prepared.

³⁾ The Company was established in the course of 2005; however, it will start operations in 2006. Annual financial statements as of December 31, 2005 were not yet available at the time these notes to the financial statements were prepared.

⁴⁾ Financial statements as of December 31, 2005 were not yet available at the time these notes to the financial statements were prepared.

Effective since January 1, 2004, a profit and loss transfer agreement is in place between C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin, and C. Bechstein Finanzservice GmbH, Berlin.

Prior to profit transfer, the net income for the fiscal year 2005 of C. Bechstein Finanzservice GmbH, Berlin amounts to EUR 67,179.93.

The subscribed capital of C. Bechstein Finanzservice GmbH, Berlin is fully paid in.

C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin granted an interest-bearing loan of EUR 51,000.00 with a term of three years to C. Bechstein Centrum Münster GmbH, Münster.

Since C. Bechstein Centrum Münster GmbH, Münster will likely report excessive debt in its balance sheet as of December 31, 2005 (EUR -4 k), C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin, as shareholder with a 51% equity investment in the company, will introduce appropriate measures together with the other shareholder to avoid consequences relating to insolvency law.

C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin granted an interest-bearing loan of EUR 260,000.00 with a term of four years to C. Bechstein Center Nederlands B.V., Woerden, Netherlands.

Funds

The funds of EUR 96 k included in financial assets relate to employee claims from “Altersteilzeit” agreements (German phased early retirement scheme) and the Company cannot dispose of them freely.

Prepaid Expenses

Prepaid expenses include a difference in accordance with Sec. 250 (3) HGB totaling EUR 113 k. This is depreciated systematically over the term of the loan.

The Company entered into an interest rate cap to the amount of EUR 3.0 million. This expires on September 10, 2007. The ceiling is set at 4% p.a. (EURIBOR rate). The premium paid is released to expense over the term of the cap. As at the balance sheet date the amount deferred is EUR 29 k and the fair value amounts to EUR 1 k.

Equity and liabilities

Equity

The Company’s **share capital** has been fully paid in. It amounts to EUR 5,787,633.00 as of December 31, 2005 and is split into 1,929,211 no-par bearer shares.

The authorized capital of EUR 1,244,484.00 was fully paid in following the capital increase performed in 2005.

The **capital reserve** developed as follows:

Exhibit 3

	<u>EUR</u>
As of January 1, 2005	3,807,881.11
Transfer of the premium made on the capital increase amounting EUR 4.00 per new no-par value share	<u>1,659,312.00</u>
As of December 31, 2005	<u>5,467,193.11</u>

Revenue reserves developed as follows:

	<u>EUR</u>
As of January 1, 2005	<u>4,062,676.05</u>
Transfer of the proportionate net income for the year 2004 pursuant to the resolution of the shareholders' meeting dated July 1, 2005	<u>549,764.23</u>
As of December 31, 2005	<u>4,612,440.28</u>

Profit brought forward developed as follows:

	2005 EUR	2004 EUR
As of January 1	<u>0.00</u>	<u>0.00</u>
Net income for the prior year	1,004,079.13	1,424,264.33
Transfer to other revenue reserves	-549,764.23	-1,038,422.03
Distribution of dividends	-454,314.90	-385,842.30
As of December 31	<u>0.00</u>	<u>0.00</u>

Pension Accruals

The differences arising from the change to the 2005 G mortality tables used to calculate the carrying amount as defined by Sec. 6a EStG were taken into account.

Other Accruals

Other accruals essentially relate to accruals for vacation accrued and workmen's compensation (EUR 271 k), for bonuses (EUR 202 k), for warranty obligations (EUR 92 k) as well as accounting, audit and consulting fees for the annual financial statements (EUR 69 k).

Liabilities

The composition and remaining terms of liabilities are detailed in the schedule of liabilities (page 13/13).

The liabilities to banks were secured as follows:

Deutsche Industriebank - IKB

- Enforceable mortgages to the amount of EUR 4,222 k, thereof assigned to ING BHF-Bank EUR 1,023 k, plus interest of 18% p.a. and 5% non-recurring payments entered in the Seifhennersdorf land register, page 1827, sub-plot Nos 48/, 48/2, 45/1, 48/4, 50/1, 53/5, 1546/3 and 1546 b

ING BHF-Bank

- Equal priority assignment of EUR 1,023 k in favor of IKB of the land charges of EUR 4,222 k registered in the Seifhennersdorf land register of the Zittau district court under page 1827 department III/1.

SEB-Bank AG and HSH Nordbank AG (security pool)

- Collateral assignment of all inventories
- Blanket assignment of all current and future trade receivables
- Assignment of claims from the all risks insurance policy
- Pledge of all bank deposits held at the other respective banks

Contingent Liabilities and Other Financial Obligations

The Company has assumed a guarantee for the subsidiary C. Bechstein Center Nederland B.V., Woerden, Netherlands amounting to EUR 36,592.50 and for the subsidiary C. Bechstein Centrum Münster GmbH, Münster, amounting to EUR 11,475.00.

Furthermore, the following obligations from lease agreements exist:

1. For the Prinzenstraße property (preparing merchandise for sale) amounts to EUR 165 k. The agreement expires on September 30, 2006. The other financial obligations resulting from this agreement total EUR 124 k (prior year: EUR 289 k) up to September 30, 2006.

2. In fiscal year 1999, agreements were concluded to rent commercial floor space in Berlin and Düsseldorf. The existing agreement for the business premises in Berlin was extended to September 30, 2005 because the existing first-time option to cancel it on June 30, 2005 was not exercised. The agreement for the business premises in Düsseldorf remains in place unchanged until September 15, 2009. The corresponding obligations total EUR 1,582 k (prior year: EUR 641 k).
3. In fiscal year 2003, an agreement were concluded to expand the rental space in Berlin (stilwerk). The agreement expires on November 30, 2009. The corresponding obligations total EUR 560 k (prior year: EUR 703 k).
4. In fiscal year 2002, agreements were concluded to rent commercial floor space in Frankfurt am Main and Cologne. First-time options of canceling the agreements are stipulated for September 30, 2006 and October 31, 2012. The corresponding obligations total EUR 1,311 k (prior year: EUR 1,581 k).
5. In fiscal year 2003, agreements were concluded to rent commercial floor space in Tübingen. A first-time option of canceling the agreement is stipulated for August 31, 2008. The corresponding obligations total EUR 305 k (prior year: EUR 415 k).
6. In fiscal year 2005, agreements were concluded to rent commercial floor space in Hanover. A first-time option of canceling the agreement is stipulated for September 30, 2010. The corresponding obligations total EUR 388 k (prior year: EUR 0 k).

There are other financial commitments resulting from the lease agreements of various vehicles. These are all within the scope of ordinary business.

There are financial obligations relating to merchandise orders to the amount of EUR 1,952 k (prior year: EUR 1,457 k).

Effective since January 1, 2004, a profit and loss transfer agreement has been in place between C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin (controlling company) and C. Bechstein Finanzservice GmbH, Berlin (controlled company).

Under this agreement, C. Bechstein Finanzservice GmbH, Berlin agrees to transfer its entire profit starting January 1, 2004, excluding formation or reversal of revenue reserves pursuant to legal provisions, to the controlling company. In accordance with Sec. 302 AktG, the controlling company agrees to compensate any net loss for the year incurred during the term of the agreement to the extent that it is not already offset through withdrawal of amounts from the voluntary reserves that were contributed to them during the term of the agreement.

In fiscal year 2005, C. Bechstein Pianofortefabrik Aktiengesellschaft absorbed a profit of EUR 67,179.93.

Derivative Financial Instruments

Type/category	Nominal amount <u>EUR k</u>	Fair value <u>EUR k</u>
Interest-related transactions	3,000	1

The interest instrument is an interest rate cap. The fair market value was determined based on a market valuation.

The premium of EUR 59.4 k paid for the interest rate cap is disclosed as prepaid expenses in the balance sheet and released over the term of the cap (September 10, 2007).

Other Notes

Company Boards

Management Board and Representation

During the fiscal year the following persons were members of the management board:

Mr. Karl Schulze, Berlin	Chairman
Mr. Leonard Duricic, Berlin	
Mr. Karl-Heinz Geishecker, Berlin	

The Company may be represented by two members of the Management Board acting jointly or by one management board member together with a person holding power of attorney. Mr. Schulze has sole powers of representation and is exempt from the restrictions of Sec. 181 BGB [“Bürgerliches Gesetzbuch”: German Civil Code].

In the year under review, management board remuneration amounted to EUR 526 k, comprising fixed remuneration of EUR 424 k and variable remuneration of EUR 102 k.

Supervisory Board

In year under review, the supervisory board consisted of:

Mr. Wolfgang Fiebach, Berlin	Chairman
Mr. Jong Sup Kim, Chairman of Samick Musical Instruments Co. Ltd., Incheon, South Korea	Deputy Chairman
Mr. Kyo Hoon Chu, Vice Chairman of Samick Musical Corporation, Los Angeles, USA	

In the year under review, supervisory board remuneration amounted to EUR 43 k, comprising fixed remuneration of EUR 31 k and variable remuneration of EUR 12 k.

Employees

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

	<u>31. December 31, 2005</u>	<u>Annual average</u>
Wage earners	134	145
Salaried employees	63	64
Managers (authorized signatories)	<u>4</u>	<u>4</u>
	<u>201</u>	<u>213</u>

In addition, 14 trainees were also employed as of December 31, 2005 (13 on average for the year). The management board had three members throughout the year.

Group Relationships

C. Bechstein Pianofortefabrik Aktiengesellschaft was not required to prepare consolidated financial statements for the year ending December 31, 2005 due to the size-related exemption stipulated in Sec. 293 (1) HGB.

Proposal for the Appropriation of Profits

The following appropriation of **net income for the year** is proposed by the management board:

	<u>EUR</u>
Net income as of December 31, 2005:	1,171,454.88
Transfer to other revenue reserves	592,691.58
Dividend distribution	578,763.30

The distribution of dividends to shareholders is transferred from the shareholders account for tax purposes. Consequently, the dividend is not recognized as taxable income.

Declaration pursuant to Sec. 160 (1) Sentence 8 AktG:

Pursuant to Sec. 20 (1) AktG, the Company was informed in January 2003 by Samick Musical Instruments & Co. Ltd., Incheon, South Korea that Samick now directly holds over one quarter of the capital stock in C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin. Pursuant to Sec. 20 (4) AktG, the Company was also informed by Samick Musical Instruments & Co. Ltd., Incheon, South Korea that Samick now holds a majority shareholding in C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin.

Following the capital increases performed in the fiscal years 2004 and 2005 and entered in the commercial register on December 27, 2004 and July 7, 2005, the majority shareholding did not exist in the fiscal year 2005.

Berlin, February 10, 2006

C. Bechstein Pianofortefabrik AG
The Management Board

Karl Schulze
Chairman of the
Management Board

Leonard Duricic

Karl-Heinz Geishecker

Statement of Changes in Fixed Assets

Exhibit 3

	1/1/2005 EUR	Acquisition and production cost			31/12/2005 EUR	Accumulated amortization/depreciation 1/1/2005				Net book value	
		Additions EUR	Disposals EUR	Reclasses EUR		Additions EUR	Disposals EUR	31/12/2004 EUR	31/12/2005 EUR	31/12/2004 EUR	
A. Fixed Assets											
I. Intangible Assets	239,593.50	7,191.50	0.00	0.00	246,785.00	105,729.72	73,497.74	0.00	179,227.46	67,557.54	133,863.78
	427,554.35	0.00	0.00	0.00	427,554.35	169,419.43	106,919.42	0.00	276,338.85	151,215.50	258,134.92
1. Software	0.00	5,000.00	0.00	0.00	5,000.00	0.00	0.00	0.00	0.00	5,000.00	0.00
2. Goodwill											
3. Payments on account											
	667,147.85	12,191.50	0.00	0.00	679,339.35	275,149.15	180,417.16	0.00	455,566.31	223,773.04	391,998.70
II. Property, Plant and Equipment											
	8,212,867.44	272,197.88	12,660.89	0.00	8,472,404.43	1,760,722.25	320,101.60	3,661.22	2,077,162.63	6,395,241.80	6,452,145.19
1. Land and buildings	4,761,011.56	145,190.63	10,701.16	13,830.53	4,909,331.56	2,842,338.14	414,030.31	10,701.16	3,245,667.29	1,663,664.27	1,918,673.42
2. Technical equipment and machines	4,632,553.50	822,205.32	2,138,799.57	0.00	3,315,959.25	1,747,392.91	407,883.60	287,898.79	1,867,377.72	1,448,581.53	2,885,160.59
3. Other equipment, furniture and fixtures <i>thereof rental instruments</i>	2,132,127.51	707,771.62	2,056,438.23	0.00	783,460.90	162,482.17	245,335.92	208,595.56	199,222.53	584,238.37	1,969,645.34
4. Payments on account and assets under construction	25,261.13	4,123.64	0.00	-13,830.53	15,554.24	0.00	0.00	0.00	0.00	15,554.24	25,261.13
	17,631,693.63	1,243,717.47	2,162,161.62	0.00	16,713,249.48	6,350,453.30	1,142,015.51	302,261.17	7,190,207.64	9,523,041.84	11,281,240.33
III. Financial Assets											
	68,000.00	129,626.00	0.00	0.00	197,626.00	0.00	0.00	0.00	0.00	197,626.00	68,000.00
1. Shares in affiliated companies	260,000.00	51,000.00	0.00	0.00	311,000.00	0.00	0.00	0.00	0.00	311,000.00	260,000.00
2. Loans to affiliated companies	20,531.29	326,637.27	0.00	0.00	347,168.56	0.00	0.00	0.00	0.00	347,168.56	20,531.29
3. Equity investments	228,900.44	59,295.05	0.00	0.00	288,195.49	0.00	0.00	0.00	0.00	288,195.49	228,900.44
4. Reinsurance claims from life assurance policies	77,539.28	18,469.96	0.00	0.00	96,009.24	303.71	0.00	0.00	303.71	95,705.53	77,235.57
5. Funds											
	654,971.01	585,028.28	0.00	0.00	1,239,999.29	303.71	0.00	0.00	303.71	1,239,695.58	654,667.30
	18,953,812.49	1,840,937.25	2,162,161.62	0.00	18,632,588.12	6,625,906.16	1,322,432.67	302,261.17	7,646,077.66	10,986,510.46	12,327,906.33

Schedule of Liabilities as of December 31, 2005

	December 31, 2005			December 31, 2004		
	Term of Liabilities		total	Term of Liabilities		total
	due within	due over		due within	due over	
	1 Year	5 Years	1 Year	5 Years		
EUR	EUR	EUR	EUR	EUR	EUR	
1. Liabilities to banks	4,453,240.33	237,400.00	6,697,054.60	6,901,357.82	713,100.00	9,689,764.09
2. Payments received on account of orders	41,000.00	0.00	41,000.00	96,266.00	0.00	96,266.00
3. Trade payables	806,690.03	0.00	806,690.03	1,707,919.51	0.00	1,707,919.51
4. Liabilities to affiliated companies	10,644.50	0.00	10,644.50	2,441,756.39	0.00	2,441,756.39
5. Liabilities to companies in which equity investments are held	258,254.00	0.00	258,254.00	0.00	0.00	0.00
6. Other liabilities	1,329,440.36	0.00	1,732,297.80	1,688,799.51	0.00	2,505,497.37
- thereof from taxes			153,582.03			227,336.37
- thereof from social security contribution			179,105.13			193,698.35
	6,899,269.22	237,400.00	9,545,940.93	12,836,099.23	713,100.00	16,441,203.36

C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin Management Report for Fiscal Year 2005

1. Business Development 2005

Sales

Defying the general economic conditions, C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin, (hereinafter also referred to as “Bechstein AG”) showed a positive business result overall in 2005. In summary, 5,192 instruments including merchandise were sold in the fiscal year which are 570 more than in the prior year.

The development of the foreign markets can only be considered favorable. Particularly on the North American market, a significant increase was achieved.

Domestic/Foreign Brand Presence

Using the Company’s centers in Germany, it was possible to generate retail sales of some EUR 9.0 million (about 53% of domestic sales). Also worthy of mention is the fact that our authorized dealers are benefiting from the concentrated presentation of products in the Centers. The excellent brand presence combined with the greater and improved opportunities for extensive public relations activities afforded by the Company’s own Centers improves the regional sales environment for our dealers.

Other Operating Income / Expenses / Results

At EUR 28.3 million (prior year: EUR 27.2 million) total operating income exceeded the prior-year level. Total allocable expenses were about EUR 25.1 million or approximately EUR 1.1 million higher than in the prior year (EUR 24.0 million). Taking into account the depreciation for the year of EUR 1.3 million (prior year: EUR 1.5 million) and the financial result of EUR -0.6 million (prior year: EUR -0.7 million), this resulted in a net profit for the year of about EUR 1.2 million.

Procurement

In general, Bechstein AG has medium-term agreements with suppliers in place to meet requirements of raw materials, consumables and supplies as well as merchandise. In order to avoid supply shortages, there is at least one additional supplier for the most important materials. In addition, the Company is working on its own vertical integration.

In fiscal 2005, we maintained our existing business relationships with Samick at the same intensity.

At the same time, cooperation with Czech partners was intensified in the course of fiscal 2005 for the cost-effective production of instruments with the involvement of the subsidiary C. Bechstein CZ s.r.o., Hradec Králové, Czech Republic, which was established in 2005. The cooperation with the supplier Petrof was terminated.

Personnel and Welfare

The total number of employees including trainees and management board members as of December 31, 2005 came to 218. A break up for Berlin und Seifhennersdorf is provided in the following:

	Dec. 31, 2005	Dec. 31, 2004
Berlin employees (including sales centers)	43	47
Seifhennersdorf employees	158	171
Seifhennersdorf trainees Management board	14 3	15 3
Total	218	236

The decrease in personnel is attributable to natural fluctuations and the necessary adjustment of the personnel structure to changes in production requirements. Training is of central importance at Bechstein AG.

Capital Expenditures

Over EUR 14.5 million was invested in total in the Seifhennersdorf facilities in the period 1996 through 2003.

The new facilities acquired as a result of the investment meet the highest standards.

Capital expenditures made during the fiscal year 2005 (EUR 536 k; prior year: EUR 679 k) relate to supplementary and necessary replacement investment.

Subsidiaries / Equity Investments

The offer of financing and lease contracts when purchasing an instrument continues to form a key component of the Bechstein AG sales concept.

Since 2004, all existing and future financing transactions are conducted via the C. Bechstein Finanzservice GmbH, Berlin, a wholly owned subsidiary of Bechstein AG which was

established for this purpose, and since September 1, 2005, the same applies for all instrument lease services as planned.

Established in March 2004 to target the BENELUX market, the business development of the wholly owned Bechstein AG subsidiary, C. Bechstein Center Nederland B.V., Woerden, Netherlands was positive. It was possible to increase sales considerably.

In fiscal 2005, C. Bechstein Centrum Münster GmbH, Münster, was established as a subsidiary of Bechstein AG which holds a 51% share in the company. Based on the experience from our activities with the Company's own sales centers, we anticipate that this newly established sales company will allow us to secure sales and afford us growth opportunities in the long term.

In addition, Bechstein made a 10% equity investment in Berlin Bechstein Piano (Shanghai) Co. Ltd., Shanghai, China. This opens opportunities for entering the Asian market.

Branch

Bechstein AG has a branch in Seifhennersdorf (Saxonia), which is used as independent production site. The modernization of property, plant and equipment of the last years is completed. In fiscal year 2005 necessary adjustments to the workforce were made to comply with the changes in the production requirements (see personnel and welfare).

Increase/Development of Share Capital

On the basis of a resolution dated June 6, 2005 and with the approval of the supervisory board, the management board decided to use the authorized capital to increase share capital to up to EUR 5,787,633.00 by issue of up to 414,828 no-par value bearer shares within the framework of a second subscription tranche.

The capital increase was performed in the second and third quarters of 2005 to the amount of EUR 1,244,484.00 by issuing 414,828 no-par value bearer shares. As a result, authorized capital is fully paid in. The management board is considering applying for the approval of further authorized capital in fiscal 2006.

Regular reports released by the Company and the broad media presence, both in the press as well as in radio and television broadcasts, were used to inform the public about the development of the Company.

The legitimate interest of shareholders in increasing the value of shares was addressed in a sustainable manner.

2. Situation of the Company

Exhibit 4

Results of Operations

Overview of individual business segments (all figures in EUR k):

	2005	2004
Specialist stores for Bechstein grand pianos manufactured in-house	6,348	3,809
Specialist stores for upright pianos manufactured in-house	6,999	7,728
Retail Centers	8,957	7,495
Wholesale of instruments manufactured externally	5,514	7,096
Other proceeds	523	365
Sales deductions, bonuses, rebates	763	923
Sales	<hr/>	<hr/>
	27,578	25,570
Other operating income / changes in inventories / own work	<hr/>	<hr/>
	678	1,627
Operating performance	<hr/>	<hr/>
	28,256	27,197

At EUR 28.3 million (prior year: EUR 27.2 million), the operating performance exceeded the prior-year level. This increase in operating performance by approx. 4% includes an 8% increase in sales compared to the prior year.

Owing to the aforementioned shift of the instrument rental business as planned on September 1, 2005, Bechstein AG sold the rented instruments to C. B. Finanzservice GmbH, thereby generating sales. At the same time, the sales to date from the lease business are lost since these are now generated by the subsidiary as of the aforementioned date.

Expenses for raw materials, consumables and supplies as well as merchandise rose by EUR 1,293 k compared to the prior year. This increase is a consequence of the increase in output and changes in the instrument structure.

Adjusted for a non-recurring effect, the personnel expenses have decreased from EUR 8,027 k in 2004 to EUR 7,902 k in 2005. Their share in the operating performance has fallen from approx. 30% to about 28%.

Overall, the adjusted operating expenses have increased by 4% compared with the prior year.

Adjusted for special effects (non-operating income and expenses), the operating result reached EUR 2,025 k, improving again compared to the prior year (EUR 1,647 k).

Due to tax loss carry forwards the income tax burden with EUR 59 k is significantly lower than the average income tax rate.

This has resulted in a net income for the year of EUR 1,171 k (prior year: EUR 1,004 k).

Financial Position

Driven by the operating result of the past fiscal year, the implemented capital increase, and the restructuring of credit relations with banks, the financial position of the Company has improved further.

Cash flow from operating activities amounted to EUR -133 k in fiscal year 2005 (prior year: EUR 1,189 k) and is essentially attributable to the decrease in trade payables, liabilities to affiliated companies and other liabilities (total: EUR -3,847 k).

In fiscal year 2005, cash flow from financing activities amounted to EUR -544 k (prior year: EUR 1,652 k) and stems from the payment of dividends (EUR -454 k; prior year: EUR -386 k) and, for the most part, from the decrease in liabilities to banks, both with respect to overdrafts and loans (total: EUR -2,993 k). A cash inflow of EUR 2,903 k resulted from the capital increase performed in 2005.

Net Assets

The net asset position of Bechstein AG has increased significantly compared to the prior year. The equity ratio now stands at 61% (prior year: 45%). Assets break down into fixed assets (EUR 10,987 k), inventories (EUR 11,166 k) and receivables (EUR 5,427 k).

Particularly receivables from affiliated companies and companies in which equity investments are held have increased due to the expansion of business operations at C. Bechstein Center Nederland B.V., Woerden, Netherlands, the establishment and start of operations of C. Bechstein Centrum Münster GmbH, Münster, and the continued high level of business operations with the business partner Samick.

The balance sheet total has decreased. This is essentially attributable to the fall in short-term liabilities combined with the decrease in cash and cash equivalents as well as the restructuring of the lease business (shift to C. Bechstein Finanzservice GmbH).

The return on invested capital

$$\frac{(\text{Net income for the year} + \text{interest expenses}) \times 100}{\text{Average balance sheet total for last two years}}$$

amounted to 6.1% in fiscal 2005 (prior year: EUR 5.9%).

The ratios of fixed assets to total assets (39%) and current assets to total assets (60%) remained constant.

Effective indebtedness

Debt capital – cash and cash equivalents – short-term receivables

was improved considerably from EUR 10,552 k in 2004 to EUR 5,280 k (or a decrease of EUR 5,272 k) due to the further decrease in short-term liabilities.

3. Subsequent Events

There were no events of material importance between the balance sheet date and the reporting date.

4. Risk Report

Industry-Specific Risks

Changes in the international economic environment and the associated changes in consumer behavior are resulting in significant global competition.

The measures taken and the results attained to date justify the assessment that Bechstein AG is equipped for the future with its worldwide partner network.

Capital expenditure made in prior years guarantee an additional increase of effectiveness. Utilization of the current production process and facilities, the adjustment of the vertical integration and the further expansion of the network ensure a swift reaction to current market requirements.

Liquidity Risks

The lines of credit currently effective with two banks to the amount of EUR 3,500 k each are guaranteed for the time being or expire on December 15, 2006. Both lines of credit can be prolonged subject to the condition that the Company continues to develop positively. Given the anticipated development in 2006 and the positive results achieved through efforts made in sales and the cost-improvement measures, we assume that the financing of Bechstein AG is secured in the long term. As of December 31, 2005, the unused overdraft facility amounted to EUR 3,223 k.

Interest Risks

To secure against possible interest risks a CAP agreement was concluded guaranteeing an upper limit on the interest charged for financing the operational resources required up to the end of fiscal year 2007.

Operating cash flow, long-term loans and existing short-term lines of credit cover the Company's financing needs.

In order to reduce the interest burden, the Company has concluded agreements with two banks under which the long-term use of the two approved lines of credit of EUR 3,500 k each is subject to a special interest rate up to an amount EUR 1,500 k respectively. On the balance sheet date, this amounted to 4.8% and 5.0%. Use of the overdraft facility in excess of the specified amount is subject to rates of interest of 6.42% and 6.50% respectively.

Risk of Default

Bechstein AG recorded material receivables due from subsidiaries and third party customers.

A qualified sale serves as a security for instruments sold to third party customers to absorb the risk of default until the payment has been settled. In case debtor management notices that the appropriate amount of a trade receivable has despite of reminders, not been settled, the instruments are recalled by Bechstein AG from the customer.

Trade accounts receivables due from subsidiaries are mainly related to deliveries of instruments, which are placed in the stock- or showrooms until their disposal and therefore serve as a collateral security for the trade receivables.

Risk Management

The recognition, analysis and reaction to business risks is an element of company management at Bechstein AG. The information system developed for this purpose ensures that the management board is regularly informed about all business areas and, if action needs to be taken, that it can determine the measures required.

The risk management system is based on the monthly reporting. This comprises the critical success factors and compares the Company's target figures to the results attained. The analyses of deviations serve the management board as an instrument for managing the Company. The supervisory board is regularly informed about the business development of the Company based on the reporting system.

5. Forecast

For the fiscal year 2006, we plan growth in sales and operating performance of 10% compared to the prior year and an above-average increase in the net income for the year. The successful measures for securing sales on the German market will continue in a targeted manner. Our goal is to offer our instruments throughout Germany via the Company's own Centers and through dedicated authorized dealers.

The sales activities remain unchanged. Targeted expansion of new markets continues. This expansion will be backed by the experience of the Company with its own sales Centers. Within the framework of partnerships, this experience will be implemented in selected export countries.

Early indications from the first quarter of 2006 allow an optimistic evaluation of the further business development.

In the future, we will continue to work closely with musicians, pianists, universities and technicians in addition to implementing the most advanced CAD applications to persistently fine tune the sound characteristics and playability of our instruments. Our experts at the Seifhennersdorf manufacturing facilities will support us in our endeavors.

6. Proposed Appropriation of Profits

The following appropriation of net income for the year is proposed by the management board at the shareholders' meeting:

- distribution of dividends of EUR 578,763.30 (EUR 0.30 per share) and
- transfer to other revenue reserves EUR 592,691.58.

The distribution of dividends to shareholders is transferred from the shareholders account for tax purposes. Consequently, the dividend is not recognized as taxable income.

Berlin, February 10, 2006

C. Bechstein Pianofortefabrik AG

The Management Board

Karl Schulze
Chairman of the
Management Board

Leonard Duricic

Karl-Heinz Geishecker

AUDIT OPINION

We have issued the following opinion on the financial statements and management report:

“We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the annual financial statements – together with the bookkeeping system, and the management report of C. Bechstein Piano-fortefabrik Aktiengesellschaft, Berlin for the fiscal year from January 1, 2005 to December 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB [“Handelsgesetzbuch”: German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of its future development.

Berlin, February 17, 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Seidel
Wirtschaftsprüfer
[German Public Auditor]

Pilawa
Wirtschaftsprüfer
[German Public Auditor]