



# Kobalt Music Group Limited

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Registered No: 4018752

## **Directors**

W B A Ahdritz  
J Ekelund  
Newmedia Spark Directors Ltd  
A J Palm

## **Secretary**

J P Fitzherbert-Brockholes

## **Auditors**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

## **Bankers**

The Royal Bank of Scotland plc  
62-63 Threadneedle Street  
London  
EC2R 8LA

## **Registered office**

4 Valentine Place  
London  
SE1 8QH

## Directors' report

The directors present their report and financial statements for the year ended 30 June 2005.

### Results and dividends

The loss for the year after taxation amounted to £573,000 (2004 - loss of £779,000). The directors do not recommend the payment of any dividends.

### Principal activities and review of the business

The principal activities of the company relate to the provision of administration services for subsidiary undertakings involved in music publishing.

The company performed in line with directors' expectations during the year ended 30 June 2005.

### Future developments

The directors aim to maintain management policies which have resulted in the company's substantial growth in recent years. They consider that 2002 will show further significant growth in sales

### Directors and their interests

The directors during the year, and their interests in the shares of the company, were as follows:

	<i>At 30 June 2005</i>	<i>At 1 July 2004</i>
	<i>Ordinary shares</i>	<i>Ordinary shares</i>
W B A Ahdritz	100	100
J Ekelund	200,000	200,000
Newmedia Spark Directors Ltd	—	—
A J Palm	—	—

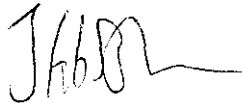
Note: W B A Ahdritz has a minority interest in Sparkidea Holding SA which holds 1,285,250 shares.

### Auditors

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

Secretary



18 SEP 2006

## Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report**

## **to the members of Kobalt Music Group Limited**

We have audited the company's financial statements for the year ended 30 June 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 20. These financial statements have been prepared on the basis of 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 United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 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 transactions with the company 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 United Kingdom Auditing Standards 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 group's circumstances, consistently applied and adequately disclosed.

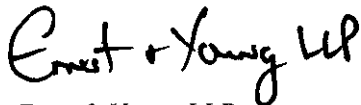
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Independent auditors' report

to the members of Kobalt Music Group Limited (continued)

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 June 2005 and of the loss of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP  
Registered Auditor  
London

18 SEP 2006

## Profit and loss account

for the year ended 30 June 2005

		<i>Year ended 30 June 2005 £000</i>	<i>15 months ended 30 June 2004 £000</i>
	<i>Notes</i>		
<b>Turnover</b>	3	1,018	733
Administrative expenses		(1546)	(1,563)
<b>Operating loss</b>	4	(528)	(830)
Interest receivable and similar income	7	1	1
Interest payable and similar charges	8	(46)	(23)
		(45)	(22)
<b>Loss on ordinary activities before taxation</b>		(573)	(852)
Tax on loss on ordinary activities	9	-	73
<b>Loss for the financial year</b>	18	(573)	(779)

## Statement of total recognised gains and losses

The company has no recognised gains and losses in either year other than those disclosed in the profit and loss account above..

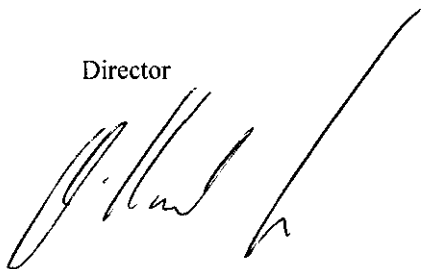
## Balance sheet

at 30 June 2005

Kobalt Music Group Limited

	<i>Notes</i>	<i>2005</i> £000	<i>2004</i> £000
<b>Fixed assets</b>			
Intangible assets	10	224	126
Tangible assets	11	58	21
Investments	12	95	94
		377	241
<b>Current assets</b>			
Debtors	13	1,429	1,394
Cash at bank and in hand		50	23
		1,479	1,417
<b>Creditors: amounts falling due within one year</b>	14	458	358
		1,021	1,059
<b>Net current assets</b>			
		1,398	1,300
<b>Total assets less current liabilities</b>			
<b>Creditors: amounts falling due after more than one year, including convertible debt</b>	15	543	684
		855	616
<b>Capital and reserves</b>			
Called up share capital	17	155	141
Share premium account	18	4,083	3,285
Profit and loss account	18	(3,383)	(2,810)
		855	616
<b>Equity shareholders' funds</b>			
		855	616

Director



18 SEP 2005



## Notes to the financial statements

at 30 June 2005

### 1. Fundamental Accounting concept

The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to generate sufficient profits and cash to enable it to meet its liabilities as and when they fall due. Despite the further equity investment received subsequent to the year end, it is possible that the Company could become reliant on the on-going repayment of the intra-group balances of £1,029,000 (2003 - £1,084,000) from Kobalt Music Services Ltd and £214,000 (2003 - £182,000) from Kojam Music Ltd. Whilst there can be no certainty concerning the future performance of these subsidiaries, the directors are confident that these subsidiaries will be able to make any repayments to the Company should they become necessary. They therefore believe that the going concern basis is appropriate in preparing the financial statements. However, should this not be the case, adjustments would have to be made to reduce the value of the assets to their realisable amount, and to provide for any further liabilities which might arise.

### 2. Accounting policies

#### *Accounting convention*

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### *Group financial statements*

The financial statements present information about the company as an individual undertaking and not about its group. The company and its subsidiary undertakings comprise a small group. The company has therefore taken advantage of the exemptions provided in section 248 of the Companies Act 1985 not to prepare group financial statements.

#### *Cash flow statement*

The company has taken advantage of the exemption in Financial Reporting Standard No.1 (revised) from including a cash flow statement on the grounds that the company is small.

#### *Depreciation*

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Computer equipment	-	25% - 50% per annum
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The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Deferred taxation*

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions:

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the directors consider that it is 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 is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

## Notes to the financial statements

at 30 June 2005

### 2. Accounting policies (continued)

#### *Investments*

Fixed asset investments are stated at cost.

The carrying values of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Intangible fixed assets*

Intangible fixed assets are initially recorded at cost. Software is amortised at a rate calculated to write off the cost over its expected useful life, as follows:

Software - 16.66% per annum

The carrying value of software is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Pension costs*

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account, as they become payable in accordance with the rules of the scheme.

#### *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

#### *Leasing and hire purchase agreements*

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

## Notes to the financial statements

at 30 June 2005

### 3. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties in respect of the company's continuing activity as stated in the directors' report.

An analysis of turnover by geographical market is given below:

	<i>Year ended 30 June 2005 £000</i>	<i>15 months ended 30 June 2004 £000</i>
United Kingdom	1,000	700
Rest of Europe	18	33
	<u>1,018</u>	<u>733</u>

### 4. Operating loss

This is stated after charging:

	<i>Year ended 30 June 2005 £000</i>	<i>15 months ended 30 June 2004 £000</i>
Auditors' remuneration		
- audit services	22	14
- non-audit services	5	-
	<u>27</u>	<u>14</u>
Depreciation of fixed assets		
- owned assets	7	14
- leased assets	13	2
Amortisation	64	40
	<u>84</u>	<u>56</u>
Operating lease rentals - land and buildings	93	92
Foreign exchange losses	4	2
	<u>141</u>	<u>148</u>

### 5. Directors' remuneration

	<i>Year ended 30 June 2005 £000</i>	<i>15 months ended 30 June 2004 £000</i>
Emoluments	115	138
	<u>115</u>	<u>138</u>

## Notes to the financial statements

at 30 June 2005

### 6. Staff costs

	<i>Year ended 30 June 2005 £000</i>	<i>15 months ended 30 June 2004 £000</i>
Wages and salaries	579	816
Social security costs	68	102
Other pension costs	–	1
	<u>647</u>	<u>919</u>

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

	<i>Year ended 30 June 2005 No.</i>	<i>15 months ended 30 June 2004 No.</i>
Administration	15	13

### 7. Interest receivable

	<i>Year ended 30 June 2005 £000</i>	<i>15 months ended 30 June 2004 £000</i>
Other interest receivable	1	1

### 8. Interest payable

	<i>Year ended 30 June 2005 £000</i>	<i>15 months ended 30 June 2004 £000</i>
Bank loans and overdraft	1	–
Finance lease interest	15	–
Other interest payable	30	23
	<u>46</u>	<u>23</u>

## Notes to the financial statements

at 30 June 2005

### 9. Tax

#### (a) Tax on loss on ordinary activities

The tax credit is made up as follows:

	<i>Year ended 30 June 2005 £000</i>	<i>15 months ended 30 June 2004 £000</i>
<i>Current tax:</i>		
UK corporation tax on the loss for the year	–	(73)
Total current tax (note 9(b))	–	(73)

#### (b) Factors affecting tax credit for the year:

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2004 - 30%). The differences are explained below:

	<i>Year ended 30 June 2005 £000</i>	<i>15 months ended 30 June 2004 £000</i>
Loss on ordinary activities before tax	(573)	(852)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 - 30%)	(172)	(256)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	3	5
Capital allowances in arrears of depreciation	8	7
Tax losses carried forward	161	152
Utilisation of tax losses for R&D credit	–	137
Uplift on qualifying research and development expenditure	–	(45)
Research and development tax credit	–	(73)
Current tax for the year (note 9(a))	–	(73)

## Notes to the financial statements

at 30 June 2005

### 9. Tax (continued)

(c) Deferred tax

The deferred taxation asset not recognised in the financial statements is as follows:

	2005	2004
	£000	£000
Capital allowances in arrears/(advance) of depreciation	4	(3)
Tax losses available	554	402
	<u>558</u>	<u>399</u>

The deferred tax asset has not been recognised as the recognition criteria under FRS 19 have not been met.

### 10. Intangible fixed assets

	<i>Software</i> £000
Cost:	
At 1 July 2004	286
Additions	162
At 30 June 2005	<u>448</u>
Amortisation:	
At 1 July 2004	160
Provided during the year	64
At 30 June 2005	<u>224</u>
Net book value:	
At 30 June 2005	<u>224</u>
At 1 July 2004	<u>126</u>

## Notes to the financial statements

at 30 June 2005

### 11. Tangible fixed assets

	<i>Owned computer equipment £000</i>	<i>Leased computer equipment £000</i>	<i>Total £000</i>
Cost or valuation:			
At 1 July 2004	31	14	45
Additions	16	41	57
At 30 June 2005	47	55	102
Depreciation			
At 1 July 2004	22	2	24
Provided during the year	7	13	20
At 30 June 2005	29	15	44
Net book value:			
At 30 June 2005	18	40	58
At 1 July 2004	9	12	21

### 12. Investments

	<i>Investment in subsidiary undertakings £000</i>
Cost:	
At 1 July 2004	94
Additions	1
At 30 June 2005	95

The addition in the year represents the subscription for 50% of the share capital of Kobalt Music Administration Limited.

## Notes to the financial statements

at 30 June 2005

### 12. Investments (continued)

The company holds at least 20% of the share capital of the following companies:

<i>Company</i>	<i>Class of shares</i>	<i>Proportion of voting rights and shares held</i>	<i>Country of registration or incorporation (if not England and Wales)</i>
<i>Subsidiary undertakings</i>			
Diesel 2 Publishing and Management AB	Ordinary	100%	Sweden
Kobalt Music Publishing Limited	Ordinary	100%	
Kobalt Music Services Limited	Ordinary	100%	
Kojam Music AB*	Ordinary	100%	Sweden
Kojam Music Limited	Ordinary	100%	
Kollector Limited	Ordinary	100%	
Monumental Songs AB**	Ordinary	100%	Sweden
Kobalt Music Publishing (Italia) Limited	Ordinary	100%	
Kobalt Music Administration Limited	Ordinary	50%	
<i>Joint ventures</i>			
Sanctuary Kobalt (UB40) Limited	Ordinary	50%	
Sanctuary Kobalt (WAR) Limited	Ordinary	50%	

\* Held by Kojam Music Limited

\*\* Held by Diesel 2 Publishing and Management Limited

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	<i>Aggregate capital and reserves</i>	<i>Profit/(loss) for the year</i>
	<i>£000</i>	<i>£000</i>
Diesel 2 Publishing and Management AB	159	(30)
Kobalt Music Publishing Limited	22	16
Kobalt Music Services Limited	(1,881)	(785)
Kojam Music AB*	11	3
Kojam Music Limited	(370)	(11)
Kollector Limited	(dormant)	–
Monumental Songs AB**	7	(1)
Kobalt Music Publishing (Italia) Limited	(dormant)	–
Kobalt Music Administration Limited	(86)	(87)
Sanctuary Kobalt (UB40) Limited	(dormant)	–
Sanctuary Kobalt (WAR) Limited	(dormant)	–

Where active, the principal activity of all these undertakings for the last relevant financial year was music publishing.



## Notes to the financial statements

at 30 June 2005

### 13. Debtors

	2005 £000	2004 £000
Amounts owed by group undertakings	1,308	1,267
Corporation tax	73	–
Other debtors	23	114
Prepayments and accrued income	25	13
	<u>1,429</u>	<u>1,394</u>

### 14 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Bank overdraft	22	–
Trade creditors	244	149
Accruals and deferred income	53	31
Amounts owed to group undertakings	69	63
Other taxes and social security costs	29	96
Other creditors	25	11
Obligations under finance leases and hire purchase contracts (note 16)	16	8
	<u>458</u>	<u>358</u>

### 15. Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Loan	504	504
Amounts owed to group undertakings	12	174
Obligations under finance leases and hire purchase contracts (note 15)	27	6
	<u>543</u>	<u>684</u>

The loan of £504,000 is convertible loan stock. The rate of interest payable on the loan stock is 6%. The loan stock is secured against the share holdings by the company in Diesel 2 Publishing & Management AB and Kojam Music AB based on the number of shares outstanding to the stockholder pursuant to the loan stock. The stock was converted to 210,000 new ordinary shares of Kobalt Music Group Limited on 10 January 2006.

## Notes to the financial statements

at 30 June 2005

### 16. Obligations under leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts:

	2005	2004
	£000	£000
Amounts payable:		
Within one year	18	9
In one to five years	30	7
	<u>48</u>	<u>16</u>
Less: finance charges allocated to future periods	5	2
	<u>43</u>	<u>14</u>

Annual commitments under non-cancellable operating leases are as follows:

	<i>Land and buildings</i>	
	2005	2004
	£000	£000
Operating leases which expire:		
Within one year	50	78

### 17. Share capital

	<i>Authorised</i>	
	2005	2004
	£000	£000
Ordinary shares of £0.05 each	400	250

	<i>Allotted, called up and fully paid</i>			
	2005			2004
	No.	£000	No.	£000
Ordinary shares of £0.05 each	3,107,942	155	2,811,931	141

On 1 October 2004, 265,251 ordinary shares were issued for a total consideration of £610,077.

On 11 October 2004, 30,760 ordinary shares were issued for a total consideration of £70,748.

After the year end, a total of 756,760 ordinary shares have been issued for a total consideration of £2,007,590.

## Notes to the financial statements

at 30 June 2005

### 18. Reserves

	<i>Share capital</i> £000	<i>Share premium account</i> £000	<i>Profit and loss account</i> £000	<i>Total</i> £000
At 1 April 2003	139	3,253	(2,031)	1,361
Loss for the year	–	–	(779)	(779)
New equity share capital subscribed	2	32	–	34
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 July 2004	141	3,285	(2,810)	616
Loss for year	–	–	(573)	(573)
Pre paid share capital	–	165	–	165
New equity share capital subscribed	14	666	–	680
Share issue costs	–	(33)	–	(33)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2005	155	4,083	(3,383)	855

### 19. Capital commitments

At the end of the financial year there were no capital commitments (2004 - £nil).

### 20. Related party transactions

#### *Debtors*

Amounts owed by group undertakings are as follows;

	2005 £000	2004 £000
Kojam Music Limited	214	182
Kobalt Music Publishing Limited	23	–
Kobalt Music Services Limited	1,028	1,084
Kollector Limited	1	–
Monumental Songs AB	–	1
Kojam Music AB	42	–
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#### *Creditors: amounts falling due within one year*

Amounts owed to group undertakings are as follows;

	2005 £000	2004 £000
KMG/Monumental	5	–
Kojam Music AB	63	63
Kobalt Music Publishing (Italia) Limited	1	–
	<hr/>	<hr/>

## Notes to the financial statements

at 30 June 2005

### 20 Related party transactions (continued)

Included in creditors are balances with related parties as shown below:

	2005	2004
	£000	£000
Spark Services Limited, a company controlled by a shareholder	68	85

#### ***Creditors: amounts falling due after more than one year***

Amounts owed to group undertakings are as follows:

	2005	2004
	£000	£000
Diesel 2 Publishing and Management AB	12	174

#### ***Profit and loss transactions***

The following related party transactions arose in the year:

		2005	2004
		£000	£000
Kobalt Music Services Ltd, a subsidiary	Management fees received	1,000	700
Diesel 2 Publishing & Management AB, a subsidiary	Management fees received	18	33
Spark Services Limited, a company controlled by a shareholder	Management fees paid	164	136