

Company Registration No. 4018752

KOBALT MUSIC GROUP LIMITED

Report and Financial Statements

30 June 2007

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KOBALT MUSIC GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2007

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KOBALT MUSIC GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2007

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

W B A Ahdritz
J Ekelund
Newmedia Spark Directors Limited
A J Palm
J P Fitzherbert-Brockholes
C Broadhurst

SECRETARY

J P Fitzherbert-Brockholes

REGISTERED OFFICE

4 Valentine Place
London
SE1 8QH

BANKERS

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

AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Cambridge

KOBALT MUSIC GROUP LIMITED

CHAIRMAN'S STATEMENT

Kobalt expansion continued apace in 2006-7 with revenue and net publisher's share (NPS) for the group up 30% on last year. As a result in Q2 2007 Kobalt was the #1 independent music publisher in the UK according to Music Week and the #2 independent in the US according to Billboard.

From this solid base, 2006/7 saw Kobalt sign many new deals that should provide Kobalt with significant further growth. During this year several internationally successful bands have become Kobalt clients including The Charlatans, Gomez, Interpol, Dandy Warhols, and The Cranberries. Artists as diverse as multi-platinum popstar and actress Hilary Duff and techno-pop superstar Moby through to legendary performer Barry Manilow and ex-Bee Gees Robin Gibb have recognised the advantages of joining Kobalt. I am also particularly pleased to be able to tell you that Herbert Gronemeyer, who is among the most successful German rock singers of his generation, joined Kobalt as the first major signing for our German office.

Furthermore many professional songwriters have also signed to Kobalt. For example, Billy Steinberg may not be a household name, but having written songs for Madonna ("Like a Virgin"), The Bangles ("Eternal Flame"), Kylie, Enrique Iglesias and now JoJo ("Too Little Too Late" which was a top 10 hit in 10 countries in 2006 and is controlled by Kobalt), his songs speak for themselves. William Orbit, a new Kobalt client in 2007, is successful as an artist in his own right, but is probably better known as a writer/producer whose credits include Madonna's "Ray of Light" and Robbie Williams' "Rudebox" albums.

The expansion in the US has been a significant task which now is making significant contributions. Sales to US clients have increased and we are regularly winning US domestic business from new clients which has further increased our sales growth. The board now expect only incremental further investment in the US will be required as the revenue that we administer increases.

As you can see, 2006/7 represented a major step forward for Kobalt, and the board are confident that we will continue to make significant progress in 2007/8 and extend our history of rapid growth.

Tom Teichman
Chairman

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2007

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The company's principal activity is to provide administrative and management functions to its subsidiaries. The company is based in London.

There have not been any significant changes in the company's principal activity in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the next year.

As shown in the company's profit and loss account on page 8, the company's sales have increased by 26.3% over the prior year and operating loss margin has improved by 7.4%, with losses after tax reduced from £383,000 to £276,000. The improvement in the company's performance is primarily due to a higher proportion of costs being recharged compared to previous years.

The Board monitors the company's performance in a number of ways including key performance indicators. The key financial performance indicators together with the information for 2006 are as follows:

	2007	2006
Increase in turnover	26.3%	60.0%
Operating loss	(£398,000)	(£375,000)
Operating loss percentage	(19.4%)	(23.0%)
Average employees	28	21

The company also uses certain non-financial performance indicators, the most significant of which is the number of employees. The increase in employee numbers during the year is the result of the group's rapid growth.

The balance sheet on page 9 of the financial statements shows an increase in loans of £900,000. This has facilitated an increase in the company's net amount owed by group companies. This loan was repaid within one month of the year end.

The company is financed by a bank loan and by equity.

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

As a result of the integrated nature of the group, the principal risks and uncertainties facing the company are those which affect the group as a whole. The risks and uncertainties facing the group are detailed below.

Revenue generation The on-going demand for the music administered by the group is unpredictable and as such the level at which this music will generate revenue in future periods is uncertain.

Client acquisition and retention The decisions of potential clients to sign with Kobalt or existing clients to remain with Kobalt are complex and involve the consideration of many factors. As such it is uncertain how many new clients the group will sign and what proportion of existing clients will extend their agreements.

Market environment At present, the record industry is experiencing declining sales volumes and depressed profitability. The extent and timing of any response by the record labels to this threat is uncertain. In addition, as the major music publishers are also record companies, it is not clear how they will respond to this and what competitive action they may take to defend their publishing interests.

Changing distribution The new channels for music distribution could significantly change the operational or financial dynamics of music publishing.

Third party suppliers Kobalt relies on a number of important third party suppliers to operate successfully. Any failure in the provision of these services may adversely impact Kobalt's business.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a number of financial risks including price risk, credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The company does not use derivative financial instruments for speculative purposes.

Cash flow risk

The company's activities expose it to some risk of changes in foreign currency exchange rates.

Currently the company has not used financial derivatives to manage its exposure to this risk due to cost benefit considerations.

Credit risk

The company has made substantial loans to other group companies. The recoverability of these loans depends on the performance of these group companies.

Liquidity risk

The company uses a bank loan and overdraft facility to ensure that sufficient funds are available for ongoing operations and future developments.

Price risk

The company is not exposed to commodity price risk. The company offers services solely to other group companies.

DIRECTORS

The directors who served throughout the year were as follows:

W B A Ahdritz

J Ekelund

Newmedia Spark Directors Limited

A J Palm

J P Fitzherbert-Brockholes

C Broadhurst

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

In the case of each of the persons who are directors of the company at the date when this report is approved

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware, and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP were appointed as auditors during the year. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors
and signed on behalf of the Board



J.P. Fitzherbert-Brockholes

Secretary

29 January 2008

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

We have audited the financial statements of Kobalt Music Group Limited for the year ended 30 June 2007 which comprise the profit and loss account, the balance sheet, the cash flow statement, the notes to the cash flow statement and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

**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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Emphasis of matter - Going concern

Without qualifying our opinion, we draw attention to the disclosures made in note 1 of the financial statements concerning the company's ability to continue as a going concern. Although the company has net current assets of £2,324,000, it has incurred a net loss of £352,000 during the year ended 30 June 2007. This, along with other matters as set forth in note 1, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Cambridge, United Kingdom

30 January 2008

KOBALT MUSIC GROUP LIMITED

PROFIT AND LOSS ACCOUNT Year ended 30 June 2007

	Note	2007 £'000	2006 £'000
TURNOVER	3	2,057	1,629
Administrative expenses		<u>(2,455)</u>	<u>(2,004)</u>
OPERATING LOSS	5	(398)	(375)
Interest receivable and similar income	6	164	170
Interest payable and similar charges	7	<u>(118)</u>	<u>(105)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(352)	(310)
Tax on loss on ordinary activities	8	<u>-</u>	<u>(73)</u>
LOSS FOR THE FINANCIAL YEAR	17	<u><u>(352)</u></u>	<u><u>(383)</u></u>

All activities derive from continuing operations

There are no recognised gains and losses for the current and preceding financial years other than the loss of £276,000 (2006 - loss of £383,000) shown above. Accordingly, no statement of total recognised gains and losses has been presented.

KOBALT MUSIC GROUP LIMITED

BALANCE SHEET 30 June 2007

	Note	2007 £'000	2006 £'000
CURRENT ASSETS			
Tangible assets	10	609	513
Investments	11	95	95
		<u>704</u>	<u>608</u>
CURRENT ASSETS			
Debtors	12	4,185	2,271
Cash at bank and in hand		31	21
		<u>4,216</u>	<u>2,292</u>
CREDITORS: amounts falling due within one year	13	<u>(2,595)</u>	<u>(653)</u>
NET CURRENT ASSETS		<u>1,621</u>	<u>1,639</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,325	2,247
CREDITORS: amounts falling due after more than one year	14	<u>(1)</u>	<u>(8)</u>
		<u>2,324</u>	<u>2,239</u>
CAPITAL AND RESERVES			
Called up share capital	16	199	194
Share premium account	17	6,002	5,811
Share option reserve	17	241	-
Profit and loss account	17	(4,118)	(3,766)
SHAREHOLDERS' FUNDS	17	<u>2,324</u>	<u>2,239</u>

These financial statements were approved by the Board of Directors on 29 January 2008.

Signed on behalf of the Board of Directors



Director

KOBALT MUSIC GROUP LIMITED

CASH FLOW STATEMENT Year ended 30 June 2007

	Note	2007 £'000	2006 £'000
Net cash outflow from operating activities	1	<u>(1,130)</u>	<u>(1,072)</u>
Returns on investments and servicing of finance			
Interest received		164	170
Interest paid		<u>(118)</u>	<u>(105)</u>
Net cash inflow from returns on investments and servicing of finance		<u>46</u>	<u>65</u>
Taxation		<u>-</u>	<u>(73)</u>
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		<u>(83)</u>	<u>(172)</u>
Net cash outflow from capital expenditure and financial investment		<u>(83)</u>	<u>(172)</u>
Net cash outflow before financing		<u>(1,167)</u>	<u>(1,252)</u>
Financing			
New short term loans		900	-
Repayment of long term loans		-	(504)
Share capital issued		196	1,767
Capital element of finance lease rental payments		<u>(17)</u>	<u>(18)</u>
Net cash inflow from financing		<u>1,079</u>	<u>1,245</u>
Decrease in cash	2/3	<u>(88)</u>	<u>(7)</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CASH FLOW STATEMENT Year ended 30 June 2007

	2007 £'000	2006 £'000	
1. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES			
Operating loss	(398)	(375)	
Depreciation of tangible assets	57	43	
Amortisation of intangible assets	145	119	
Capitalised labour costs	(215)	(227)	
Loss on disposal of tangible assets	-	6	
Increase in debtors	(1,914)	(842)	
Increase in creditors within one year	954	216	
Increase in creditors payable after one year	-	(12)	
Expense arising on issue of share options	241	-	
Net cash outflow from operating activities	<u>(1,130)</u>	<u>(1,072)</u>	
2. ANALYSIS OF NET DEBT			
	At 1 July 2006 £	Cash flow £	At 30 June 2007 £
Cash at bank and in hand	21	10	31
Bank overdrafts	-	(98)	(98)
	<u>21</u>	<u>(88)</u>	<u>(67)</u>
Debts falling due within one year	-	(900)	(900)
Finance leases	(25)	17	(8)
	<u>(25)</u>	<u>(883)</u>	<u>(908)</u>
Net debt	<u>(4)</u>	<u>(971)</u>	<u>(975)</u>
3 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
	2007 £'000	2006 £'000	
Decrease in cash in the year	(88)	(7)	
Cash (inflow) outflow from change in debt and lease financing	(883)	18	
Movement in net debt in the year	<u>(971)</u>	<u>11</u>	
Opening net debt	(4)	(15)	
Closing net debt	<u>(975)</u>	<u>(4)</u>	

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

1. GOING CONCERN

The financial statements have been prepared on a going concern basis on the assumption that the company will generate sufficient profits and cash to enable it to meet its liabilities as and when they fall due. It is possible that the company could become reliant on the on-going repayment of intra-group balances as detailed in Note 20.

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.

In deciding whether the going concern basis is appropriate, the directors have also considered the cash flow position of the company and of its subsidiary undertakings going forward. In the judgement of the directors, the company and its subsidiary undertakings have adequate existing facilities in place to meet their cash needs and it will not be necessary to obtain further finance for this purpose.

The directors 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

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

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 medium 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.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

2 ACCOUNTING POLICIES (continued)

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
Office equipment	33% per annum
Fixtures and fittings	10% per annum
Software	16 66% per annum

The carrying values of tangible fixed assets are 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 stakeholder pension scheme. The company does not make any contributions to this scheme and so no cost to the company is involved

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

Share-based payment

The company has applied the requirements of FRS 20 Share-based Payment. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 July 2006

The company issued equity-settled share-based payments to certain employees and suppliers. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

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

	2007 £'000	2006 £'000
United Kingdom	1,883	1,479
Rest of Europe	12	19
Rest of World	162	131
	<u>2,057</u>	<u>1,629</u>

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2007 £'000	2006 £'000
Directors' remuneration		
Directors' emoluments	367	356
	<u>367</u>	<u>356</u>

Emoluments of highest paid director	207	200
	<u>207</u>	<u>200</u>

	No	No
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Average number of persons employed by the company during the year was:

Administration	28	21
	<u>28</u>	<u>21</u>

	£'000	£'000
Staff costs during the year (including directors)		
Wages and salaries	1,082	837
Social security costs	149	121
Share based payment charge	241	-
	<u>1,472</u>	<u>958</u>

5. OPERATING LOSS

	2007 £'000	2006 £'000
Operating loss is after charging		
Depreciation of fixed assets		
Owned assets	185	144
Leased assets	17	18
Operating lease rentals		
Land and buildings	79	81
Foreign exchange losses	61	26
The analysis of auditors' remuneration is as follows		
Fees payable to the company's auditors for the audit of the company's annual accounts	5	4
Other services relating to tax	2	1
	<u>5</u>	<u>1</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2007

6 INTEREST RECEIVABLE AND SIMILAR INCOME

	2007 £'000	2006 £'000
Intra-group loan interest	162	166
Other interest receivable	2	4
	<u>164</u>	<u>170</u>

7 INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £'000	2006 £'000
Bank loans and overdraft	13	-
Finance lease interest	4	5
Intra-group loan interest	101	89
Other interest payable	-	11
	<u>118</u>	<u>105</u>

8 TAX ON LOSS ON ORDINARY ACTIVITIES

	2007 £'000	2006 £'000
Current tax		
United Kingdom corporation tax based on the result for the year at 30%	-	-
Revision of prior year research and development tax credit	-	73
	<u>-</u>	<u>73</u>
Total current tax	<u>-</u>	<u>73</u>

The standard rate of tax for the year, based on the United Kingdom standard rate of corporation tax is 30% (2006 - 30%) The actual tax charge for the current year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation

	2007 £'000	2006 £'000
Loss on ordinary activities before tax	<u>(352)</u>	<u>(310)</u>
Tax on loss on ordinary activities at standard rate	(106)	(93)
Factors affecting charge for the year		
Expenses not deductible for tax purposes	20	19
Capital allowances in excess of depreciation	(30)	(8)
Other timing differences	73	8
Tax losses carried forward	43	74
Prior year adjustment	-	73
	<u>-</u>	<u>73</u>
Total actual amount of current tax	<u>-</u>	<u>73</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2007

8. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

Factors that may affect future tax charges

The deferred tax asset arising in respect of trading losses carried forward not recognised in the financial statements is as follows

	2007 £'000	2006 £'000
Capital allowances in excess of depreciation	(15)	(2)
Other timing differences	50	8
Tax losses available	606	720
	<u>641</u>	<u>726</u>

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

9. SHARE BASED PAYMENTS

Equity-settled share options

Three of the original founding shareholders of the company had options over shares in the company in payment for agreeing to cancel of the original shareholder agreement in 2002. The exercise price was £1.85. These options were exercised on 1 March 2007.

The company provides incentives in the form of share options to many employees of the group as well as a small number of key suppliers. Options are exercisable at a price equal to or greater than the latest issued or traded price of the company's shares on the date of grant. The vesting period is between one to three years. If the options remain unexercised after a period of between five and ten years from the date of grant the options expire. Some options are forfeited if the employee leaves the group.

Details of the share options outstanding during the year are as follows

	2007		2006	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of year	846,493	2.52	715,711	2.45
Granted during the year	341,176	3.14	130,782	2.87
Forfeited during the year	(4,032)	2.75	-	-
Exercised during the year	(105,999)	1.85	-	-
Expired during the year	-	-	-	-
	<u>1,077,638</u>	<u>2.78</u>	<u>846,493</u>	<u>2.52</u>
Outstanding at the end of the year	1,077,638	2.78	846,493	2.52
Exercisable at the end of the year	<u>900,296</u>	<u>2.69</u>	<u>787,621</u>	<u>2.48</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2007

9 SHARE BASED PAYMENTS (continued)

The inputs into the Black-Scholes option pricing model for options granted within the relevant period are as follows

Year ended 30 June	2007
Weighted average share price	£2.79
Weighted average exercise price	£3.14
Expected volatility	25%
Weighted average expected life	9.6 years
Weighted average risk-free rate	4.7%
Expected dividends	-

Expected volatility was estimated by considering comparable companies and historical volatility of the company's share price over the previous 5 years

The company recognised total expenses of £241,000 related to equity-settled share-based payment transactions in the year ended 30 June 2007

10 TANGIBLE FIXED ASSETS

	Office equipment and fixtures £'000	Computer equipment £'000	Software £'000	Total £'000
Cost				
At 1 July 2006	136	113	675	924
Additions	35	22	241	298
At 30 June 2007	<u>171</u>	<u>135</u>	<u>916</u>	<u>1,222</u>
Depreciation				
At 1 July 2006	13	55	343	411
Provided during the year	18	39	145	202
At 30 June 2007	<u>31</u>	<u>94</u>	<u>488</u>	<u>613</u>
Net book value				
At 30 June 2007	<u>140</u>	<u>41</u>	<u>428</u>	<u>609</u>
At 30 June 2006	<u>123</u>	<u>58</u>	<u>332</u>	<u>513</u>

Included above are leased assets with a net book value of £8,000 (2006 - £25,000)

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2007

11. INVESTMENTS

	Investment in subsidiary undertakings £'000 £
Cost	
At 1 July 2006 and 30 June 2007	95

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

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

	Aggregate capital and reserves £'000	Profit (loss) for the year £'000
Diesel 2 Publishing and Management AB	193	18
Kojam Music AB	14	5
Monumental Songs AB	9	1
Kobalt Music Publishing Limited	86	(164)
Kobalt Music Services Limited	(3,393)	(661)
Kojam Music Limited	(477)	(86)
Kobalt Music Administration Limited	(21)	(23)
Kollector Limited (dormant)	-	-
Kobalt Music Publishing (Italia) Limited (dormant)	-	-
Sanctuary Kobalt (UB40) Limited	2	1
Sanctuary Kobalt (WAR) Limited	2	-
Kobalt Music Publishing America Inc	(433)	(141)
Kobalt Music Services America Inc	(876)	(747)

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

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2007

12 DEBTORS

	2007 £'000	2006 £'000
Amounts owed by group undertakings	3,974	2,144
Other debtors	153	67
Prepayments and accrued income	58	60
	<u>4,185</u>	<u>2,271</u>

All debtors are due within one year

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £'000	2006 £'000
Bank loans	900	-
Bank overdraft	98	-
Obligations under finance leases and hire purchase contracts	7	17
Trade creditors	41	31
Amounts owed to group undertakings	1,260	325
Other taxes and social security costs	54	40
Other creditors	16	23
Accruals and deferred income	219	217
	<u>2,595</u>	<u>653</u>

The loans and overdraft are secured by a charge over the company's assets

14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2007 £'000	2006 £'000
Obligations under finance leases and hire purchase contracts	<u>1</u>	<u>8</u>

15 OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Amounts due under finance leases and hire purchase contracts

	2007 £'000	2006 £'000
Amounts payable		
Within one year	9	21
In one to five years	1	10
	<u>10</u>	<u>31</u>
Less finance charges allocated to future periods	2	6
	<u>8</u>	<u>25</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2007

16. CALLED UP SHARE CAPITAL

	2007	2006
	£'000	£'000
Authorised		
8,000 ordinary shares of £0.05 each	400	400
Called up, allotted and fully paid		
3,977,973 (2006 - 3,871,974) ordinary shares of £0.05 each	199	194

On 1 March 2007, 105,999 ordinary shares were issued for total consideration of £196,098 as a result of the exercise of share options

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENT ON RESERVES

	Called up share capital	Share premium account	Share option reserve	Profit and loss account	Shareholders' funds 2007 Total	Shareholders' funds 2006 Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2006	194	5,811	-	(3,766)	2,239	855
Loss for the year	-	-	-	(352)	(352)	(383)
New equity share capital subscribed	5	191	-	-	196	2,008
Reversal of pre-paid share capital	-	-	-	-	-	(165)
Options issued	-	-	241	-	241	-
Share issue costs	-	-	-	-	-	(76)
At 30 June 2007	199	6,002	241	(4,118)	2,324	2,239

18. OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows

	Plant and machinery		Land and building	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Operating leases which expire				
Between two and five years	11	6	-	-
After more than five years	-	-	89	95

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2007

19. CAPITAL COMMITMENTS

At the end of the financial year there were no capital commitments (2006 - £nil)

20. RELATED PARTY TRANSACTIONS

Debtors

Amounts owed by group undertakings are as follows

	2007 £'000	2006 £'000
Kojam Music Limited	409	198
Kobalt Music Publishing Limited	1,136	846
Kobalt Music Services Limited	1,652	336
Kobalt Music Publishing America Inc	777	418
Kobalt Music Services America Inc	-	325
Diesel 2 Publishing and Management AB	-	21
	<u> </u>	<u> </u>

Creditors: amounts falling due within one year

Amounts owed to group undertakings are as follows

	2007 £'000	2006 £'000
Monumental AB	9	9
Kojam Music AB	12	24
Kobalt Music Administration Limited	478	292
Diesel 2 Publishing & Management AB	247	-
Kobalt Music Services America Inc	514	-
	<u> </u>	<u> </u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

20 RELATED PARTY TRANSACTIONS (continued)

Profit and loss transactions

The following related party transactions arose in the year

		2007 £'000	2006 £'000
Kobalt Music Services Limited, a subsidiary	Management fees received	1,201	1,096
Kobalt Music Publishing Limited, a subsidiary	Management fees received	682	372
Kobalt Music Publishing America Inc, a subsidiary	Management fees received	40	131
Kobalt Music Administration Limited, a subsidiary	Management fees received	-	8
Diesel 2 Publishing & Management AB, a subsidiary	Management fees received	11	19
Kobalt Music Services America Inc, a subsidiary	Management fees received	122	-
Kobalt Music Services Limited, a subsidiary	Interest received	68	98
Kobalt Music Publishing Limited, a subsidiary	Interest paid	47	67
Kojam Music Limited, a subsidiary	Interest received	36	45
Kobalt Music Administration Limited, a subsidiary	Interest paid	15	2
Kobalt Music Publishing America Inc, a subsidiary	Interest received	58	20
Kobalt Music Services America Inc, a subsidiary	Interest received	-	4
Kobalt Music Services America Inc, a subsidiary	Interest paid	21	-
Kojam Music AB, a subsidiary	Interest paid	2	1
Diesel 2 Publishing & Management AB, a subsidiary	Interest paid	15	18
Monumental AB	Interest paid	1	-
Spark Services Limited, a company controlled by a shareholder	Fee payable in respect of office services	-	61

21. POST BALANCE SHEET EVENT

On 20 August 2007, the company disposed of its holdings in Sanctuary Kobalt (UB40) Limited and Sanctuary Kobalt (WAR) Limited. The consideration was £1 in both cases.