

Company Registration No. 4018752

KOBALT MUSIC GROUP LIMITED

Report and Consolidated Financial Statements

30 June 2011

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KOBALT MUSIC GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2011

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KOBALT MUSIC GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2011

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

W B A Ahdritz
J Ekelund
A J Palm
J P Fitzherbert-Brockholes
T Bunting
T Teichman
R Thompson

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

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge

KOBALT MUSIC GROUP LIMITED

CHAIRMAN'S STATEMENT

It has been another strong year of growth for the Group, with revenues up 25.6% and gross profits increasing by 22.3%. This achievement is due to Kobalt's unique service and collection infrastructure based on a technology platform developed in-house.

Kobalt has continued its success in new signings with a further 242 new client agreements signed in the year ended 30 June 2011, with 78,946 new works added to the total in the same period. A large proportion of these new works were delivered by existing clients. Customer retention in 2011 was over 98%.

Kobalt clients continue to enjoy chart success around the world. The most striking recent evidence for this was the share of radio airplay in the United States for Quarter 3 2011 - Kobalt had the second largest share, ahead of majors Universal, Sony/ATV and Warner/Chappell.

In the last two years 23 songs controlled by Kobalt have reached number one in the UK or the US. This includes hits such as P!nk's "Raise Your Glass", Ke\$ha's "We R Who We R" and Usher's "DJ Got Us Fallin' In Love". The latest success is the worldwide smash hit "Somebody That I Used To Know" by Gotye, an early signing from our recently-opened Australian office.

In the course of 2011 the Group enhanced its offering to clients by moving into the area of Neighbouring Rights. We are confident that Kobalt's technological edge and in-house expertise can raise the bar in this field just as we have done in music publishing.

The Group took another significant step in December 2011 with its acquisition of UK digital music distributor AWAL. By expanding into label services, the Group is able to offer new and existing clients the opportunity to retain control of their masters rather than signing a conventional label deal.

Historically Kobalt has not had a significant advance fund in place and therefore not been able to sign all the opportunities that we have been offered. With our new fund closed in July 2011 we now have capital to take those opportunities and enhance our growth even further.

Constantly striving to improve our service offering, whilst maintaining the high standards which our clients have come to expect, is key to the Group's ongoing success. With this in mind, I would like to thank all of Kobalt's directors and staff on behalf of the board for their continuing efforts. Kobalt's great achievements to date would not have been possible without their enthusiasm and professionalism.

Tim Bunting

Chairman

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2011

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The group's principal activities are the provision of services to the owners and creators of music. The group head office is in London, with other offices in New York, Los Angeles, Nashville, Sydney, Stockholm and Berlin.

There have not been any significant changes in the group'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 group's activities in the next year.

As shown in the group's profit and loss account on page 8, the group's sales have increased by 25.6% over the prior year while gross margin has decreased by 0.3 percentage points. However, gross profit increased in absolute terms by £1,210k, an increase which was not matched by a corresponding increase in operating costs. This has resulted in the loss after tax remaining broadly constant at £1,936k as opposed to the previous year's £1,889k. The group's on-going losses are the result of a conscious decision to prioritise growth over profitability, the results are in line with the group's long-term forecasts.

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 the prior year are as follows:

	2011	2010
Increase in turnover	25.6%	29.0%
Gross profit	£6,638k	£5,428k
Gross profit percentage	10.9%	11.2%
Operating loss	£(1,444k)	£(1,516k)

The group also uses certain non-financial performance indicators, one of which is the number of employees. The increase in employee numbers during the year (from 76 to 89) is the result of the group's rapid growth in activity.

The balance sheet on page 9 of the financial statements shows that the group's cash position remains healthy. The group is financed by working capital, loans and equity.

PRINCIPAL RISKS AND UNCERTAINTIES

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.

The group seeks to mitigate this risk by seeking to make its roster as wide-ranging as possible. This means that the group's revenue is not unduly affected by fluctuations in the popularity of certain genres of music, or of specific writers and artists. The fact that the group collects royalties worldwide minimises its exposure to specific territories.

Client acquisition and retention: The decisions of potential clients to sign with Kobalt or of 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.

In recent years the group has increased its sales efforts, particularly in the USA which is the world's largest market. Furthermore, the group has additional finance available to enable it to provide the advances which larger prospective clients often require.

The group makes constant efforts to improve its service offering, particularly in the areas of transparency and technological innovation. This serves to help retain existing clients as well as encouraging new clients to join Kobalt.

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Market environment There are uncertain economic conditions at present and 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.

The group monitors the latest developments in the industry by means of research, review of trade publications, and membership of industry organisations and forums. Kobalt's state of the art royalty processing and analysis systems arguably allow it to adapt more quickly to industry changes than more traditional publishers.

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

Again Kobalt's technological expertise makes it well-placed to adapt to new distribution channels. The high level of automation in its royalty processing makes assimilating new sources of revenue and/or royalty information less time-consuming and costly.

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.

In recent years Kobalt has sought to institute direct collection in as many territories as possible, thereby minimising its exposure to the failure of third parties. However, the nature of music publishing makes it impossible to avoid reliance on some third parties, especially royalty collection societies.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

The group's activities expose it to some risk of changes in foreign currency exchange rates. Other than in exceptional circumstances, the group does not feel it necessary to hedge against these exposures.

Credit risk

Royalties due to Kobalt are often from large and established organisations and there is considered to be a low risk that these debts will not be recovered.

The group is exposed to credit risk when it makes advances to clients. These advances are subject to detailed financial analysis and a full commercial assessment.

Liquidity risk

The group uses a bank loan and overdraft facility to ensure that sufficient funds are available for ongoing operations and future developments. A convertible loan of £4m received by the group during the previous year was converted to equity in December 2010.

The group regularly prepares and updates cash flow forecasts which monitor its financing requirements. The group maintains a close relationship with its existing lenders whilst regularly assessing the possibility of obtaining finance from other sources.

CHARITABLE DONATIONS

During the year the Group made charitable donations of £1k (2010 - £13k)

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

DIRECTORS

The directors who served throughout the year were as follows

W B A Ahdritz
J Ekelund
A J Palm
J P Fitzherbert-Brockholes
T Bunting
T Teichman

R Thompson was appointed as a director on 7 March 2012

DIRECTORS' RESPONSIBILITIES STATEMENT

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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group 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 accounting estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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

AUDITOR

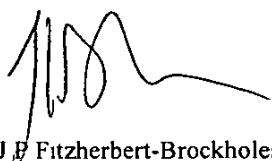
Each of the persons who is a director at the date of approval of this annual report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor 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 March 2012

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF KOBALT MUSIC GROUP LIMITED

We have audited the financial statements of Kobalt Music Group Limited for the year ended 30 June 2011 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2011 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF
KOBALT MUSIC GROUP LIMITED (continued)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

A J, Swarbrick

Andrew Swarbrick BA FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

30 March 2012

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 30 June 2011

	Note	2011 £'000	2010 £'000
TURNOVER	2	61,149	48,679
Cost of sales		<u>(54,511)</u>	<u>(43,251)</u>
Gross profit		6,638	5,428
Administrative expenses		<u>(8,082)</u>	<u>(6,944)</u>
OPERATING LOSS		<u>(1,444)</u>	<u>(1,516)</u>
Interest receivable and similar income	5	1	1
Interest payable and similar charges	6	<u>(62)</u>	<u>(76)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(1,505)</u>	<u>(1,591)</u>
Tax on loss on ordinary activities	7	<u>(431)</u>	<u>(298)</u>
LOSS FOR THE FINANCIAL YEAR	17	<u><u>(1,936)</u></u>	<u><u>(1,889)</u></u>

All activities derive from continuing operations

There are no recognised gains and losses other than as shown above. Therefore no statement of total recognised gains and losses is presented.


KOBALT MUSIC GROUP LIMITED

CONSOLIDATED BALANCE SHEET 30 June 2011

	Note	£'000	2011 £'000	£'000	2010 £'000
ASSETS EMPLOYED					
FIXED ASSETS					
Tangible assets	10		1,400		1,097
CURRENT ASSETS					
Debtors	12		25,163		14,481
Cash at bank and in hand			10,563		8,556
			35,726		23,037
CREDITORS: amounts falling due within one year	13		(38,151)		(23,328)
NET CURRENT LIABILITIES			(2,425)		(291)
TOTAL ASSETS EMPLOYED LESS CURRENT LIABILITIES			(1,025)		806
FINANCED BY					
CREDITORS: amounts falling due after more than one year	14		-		4,056
CAPITAL AND RESERVES					
Called up share capital	16	286		250	
Share premium account	17	15,156		11,046	
Share option reserve	17	889		874	
Profit and loss account	17	(17,356)		(15,420)	
SHAREHOLDERS' DEFICIT	17		(1,025)		(3,250)
			(1,025)		806

The financial statements of Kobalt Music Group Limited, registered number 4018752, were approved by the Board of Directors and authorised for issue on 29 MARCH 2012

Signed on behalf of the Board of Directors



Director

J P Fitzherbert-Brockholes

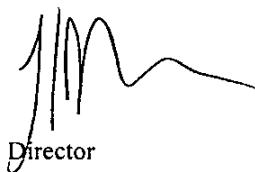
KOBALT MUSIC GROUP LIMITED

BALANCE SHEET 30 June 2011

	Note	£'000	2011 £'000	£'000	2010 £'000
ASSETS EMPLOYED					
FIXED ASSETS					
Tangible assets	10		1,204		935
Investments	11		135		119
			<u>1,339</u>		<u>1,054</u>
CURRENT ASSETS					
Debtors	12		28,318		20,136
Cash at bank and in hand			338		850
			<u>28,656</u>		<u>20,986</u>
CREDITORS: amounts falling due within one year	13		<u>(15,193)</u>		<u>(8,111)</u>
NET CURRENT ASSETS			<u>13,463</u>		<u>12,875</u>
TOTAL ASSETS EMPLOYED			<u>14,802</u>		<u>13,929</u>
FINANCED BY					
CREDITORS: amounts falling due after more than one year	14		-		4,056
CAPITAL AND RESERVES					
Called up share capital	16	286		250	
Share premium account	17	15,156		11,046	
Share option reserve	17	889		874	
Profit and loss account	17	<u>(1,529)</u>		<u>(2,297)</u>	
SHAREHOLDERS' FUNDS	17		<u>14,802</u>		<u>9,873</u>
			<u>14,802</u>		<u>13,929</u>

The financial statements of Kobalt Music Group Limited, registered number 4018752, were approved by the Board of Directors and authorised for issue on 29 March 2012.

Signed on behalf of the Board of Directors



Director

J P Fitzherbert-Brockholes

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT Year ended 30 June 2011

	Note	2011 £'000	2010 £'000
Net cash (outflow) inflow from operating activities	1	(1,273)	1,062
Returns on investments and servicing of finance			
Interest received		1	1
Interest paid		(62)	(76)
Net cash outflow from returns on investments and servicing of finance		<u>(61)</u>	<u>(75)</u>
Taxation		<u>(431)</u>	<u>(298)</u>
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(318)	(240)
Net cash outflow from capital expenditure and financial investment		<u>(318)</u>	<u>(240)</u>
Net cash (outflow) inflow before financing		<u>(2,083)</u>	<u>449</u>
Financing			
Issue of convertible loan stock		-	4,000
Bank loans		4,000	-
Share capital issued		90	286
Capital element of finance lease rental payments		-	(6)
Net cash inflow from financing		<u>4,090</u>	<u>4,280</u>
Increase in cash	2/3	<u><u>2,007</u></u>	<u><u>4,729</u></u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT Year ended 30 June 2011

	2011 £'000	2010 £'000
1. RECONCILIATION OF OPERATING LOSS TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES		
Operating loss	(1,444)	(1,516)
Depreciation of tangible assets	407	392
Loss on disposal of fixed assets	-	1
Capitalised labour costs	(392)	(286)
Increase in debtors	(10,682)	(1,765)
Increase in creditors	10,823	4,090
Share option payment charge	15	146
Net cash (outflow) inflow from operating activities	<u>(1,273)</u>	<u>1,062</u>

2. ANALYSIS OF NET FUNDS

	At 1 July 2010 £	Cash flow £	At 30 June 2011 £
Cash at bank and in hand	8,556	2,007	10,563
Convertible loan stock	(4,000)	4,000	-
Bank loan	-	(4,000)	(4,000)
Net funds	<u>4,556</u>	<u>2,007</u>	<u>6,563</u>

3. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2011 £'000	2010 £'000
Increase in cash in the year	2,007	4,729
Cash inflow from change in debt and lease financing	-	(3,994)
Movement in net funds in the year	<u>2,007</u>	<u>735</u>
Opening net funds	4,556	3,821
Closing net funds	<u>6,563</u>	<u>4,556</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2011

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Basis of accounting

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

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the directors' report on pages 3 and 4.

Going concern

The group has in place an agreed £9m bank borrowing facility, renewed in February 2012, which is available for the period through to 7 January 2013. The directors are not aware of any reason why this facility will not be renewed when it expires.

The directors have prepared projected cash flow information for the period ending 30 June 2013 and beyond. These projections anticipate that the group will be able to operate from cash generated from trading revenue, together with drawing on the agreed facility when required. No further capital injections to the group are expected or considered necessary.

The directors acknowledge the group is trading in an uncertain economic environment, although it is their belief that the group is well positioned to meet its business objectives. They have examined the results of sensitivity analyses on their forecasts to assess the effect on cash given certain downside scenarios. The directors expect that the group will be cash generating for the next 12 months and beyond.

Based on the above, the directors have concluded that the group will continue in operational existence for the foreseeable future even if there are significant reductions in its planned revenues over this period. The directors therefore consider it appropriate to prepare the financial statements on a going concern basis.

Turnover

Turnover represents 12 months' worth of royalties. Part of this will be represented by an accrual the company makes for approximately 3 months of royalty revenue, the receipt of which will occur in the first quarter post year end.

Basis of consolidation

The group financial statements consolidate the financial statements of Kobalt Music Group Limited and its subsidiary undertakings (as listed in note 11). All entities have an accounting year end of 30 June.

Fixed asset 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.

Convertible loan notes

The component parts of compound instruments issued by the group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. On initial recognition the financial liability component is recorded at its fair value. At the date of issue, in the case of a convertible bond denominated in the local currency of the issuer that may be converted into a fixed number of equity shares, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. Where applicable, this is recognised and included in equity and is not subsequently remeasured.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2011

1 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

Fixtures and fittings	20% per annum
Office equipment	33% per annum
Computer equipment	33% per annum
Purchased software	20% to 33% per annum
Proprietary software	20% 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

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.

Pension costs

Kobalt Music Group Limited operates a defined contribution stakeholder pension scheme. The group does not make any contributions to this scheme.

Foreign currencies

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation 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 group equity investments in foreign currency enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises. 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.

Royalty advances

Advances in respect of royalties payable, which are non-refundable but recoupable, comprise advances to clients under contract. These advances are included as prepayments. Specific provisions are made against these advances where the outstanding advance at the balance sheet date exceeds future expected royalty earnings.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2011

1. ACCOUNTING POLICIES (continued)

Share-based payment

The group 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 group has 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 group'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.

Financial instruments

The group uses derivative financial instruments to reduce exposure to interest rate movements. The group does not hold or issue derivative financial instruments for speculative purposes.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts earned in respect of the group's continuing activity as stated in the directors' report.

An analysis of turnover by geographical market is given below.

	2011 £'000	2010 £'000
United Kingdom	8,685	6,938
Rest of Europe	16,760	14,877
North America	29,490	23,290
Rest of World	6,214	3,574
	<u>61,149</u>	<u>48,679</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2011 £'000	2010 £'000
Directors' remuneration		
Directors' emoluments	<u>766</u>	<u>492</u>
Emoluments of highest paid director	<u>480</u>	<u>311</u>
	No	No
Average number of persons employed by the group during the year was		
Management	9	8
Copyright administration	27	24
Other administration	24	17
Client services	5	5
Synchronisation and creative	24	22
	<u>89</u>	<u>76</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2011

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	2011 £'000	2010 £'000
Staff costs during the year (including directors)		
Wages and salaries	4,462	3,628
Social security costs	475	360
Share-based payment charges	15	146
	<u>4,952</u>	<u>4,134</u>

4. OPERATING LOSS

	2011 £'000	2010 £'000
Operating loss is after charging:		
Depreciation of fixed assets		
Owned assets	407	386
Leased assets	-	6
Loss on disposal of fixed assets	-	1
Operating lease rentals		
Land and buildings	304	311
Plant and machinery	13	16
Foreign exchange (gains)/losses	(29)	177
The analysis of auditor's remuneration is as follows		
Fees payable to the company's auditor for the audit of the group's annual accounts	65	50
Other services	81	63
	<u>81</u>	<u>63</u>

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2011 £'000	2010 £'000
Bank interest receivable	<u>1</u>	<u>1</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2011 £'000	2010 £'000
Bank loans and overdraft	55	19
Convertible loan interest	7	56
Other interest payable	-	1
	<u>62</u>	<u>76</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2011

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2011 £'000	2010 £'000
Current tax		
United Kingdom corporation tax based on the result for the year at 27.5% (2010 - 28%)	-	-
Double tax relief		
Non-reclaimable withholding tax on royalty payments received	431	298
	<u>431</u>	<u>298</u>
Total current tax	<u>431</u>	<u>298</u>

The standard rate of tax for the year, based on the United Kingdom standard rate of corporation tax is 27.5% - 2010 - 28%) 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

	2011 £'000	2010 £'000
Loss on ordinary activities before tax	(1,505)	(1,591)
Tax on loss on ordinary activities at standard rate	(414)	(445)
Factors affecting charge for the year		
Expenses not deductible for tax purposes	37	184
Capital allowances in deficit (excess) of depreciation	94	(32)
Tax losses carried forward	315	440
Net non-reclaimable withholding tax on royalty payments received	431	298
Losses utilised	(32)	(147)
	<u>431</u>	<u>298</u>
Total actual amount of current tax	<u>431</u>	<u>298</u>

Deferred taxation

The parent company and various subsidiaries have, subject to agreement by HMRC, tax losses available for offset against future taxable profits arising from the same trades. These losses have an approximate value of £1.9 million (2010 - £1.9 million). Consequently, potential deferred taxation assets arise in these companies which have not been recognised in the financial statements due to the uncertainty of future profits against which these losses may be offset.

In March 2011, the UK Government announced a reduction in the standard rate of UK corporation tax to 26% effective 1 April 2011. This rate reduction was substantively enacted in March 2011.

In March 2012, the UK Government announced the main rate of UK corporation tax would reduce to 24% with effect from 1 April 2012, with subsequent 1% reductions annually to 22% by April 2014. These changes have not yet been substantively enacted.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2011

8. SHARE BASED PAYMENTS

Equity-settled share options

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

	2011	Weighted average exercise price (in £)	2010	Weighted average exercise price (in £)
	Number of share options		Number of share options	
Outstanding at beginning of year	1,340,652	3.51	1,273,329	3.35
Granted during the year	7,056	6.00	78,680	6.00
Forfeited during the year	(200,900)	6.00	(11,357)	2.82
Exercised during the year	(30,648)	2.70	-	
Expired during the year	(19,506)	2.75	-	
	<u>1,096,654</u>		<u>1,340,652</u>	3.51
Outstanding at the end of the year				
Exercisable at the end of the year	<u>1,089,286</u>		<u>1,330,969</u>	3.49

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

Year ended 30 June	2011	2010
Weighted average share price	£5.13	£4.63
Weighted average exercise price	£6.00	£6.00
Expected volatility	25%	25%
Weighted average expected life	5.0 years	4.2 years
Weighted average risk-free rate	2.6%	2.6%
Expected dividend yield	-	-

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

The group recognised total expenses of £15k related to equity-settled share-based payment transactions in the year ended 30 June 2011 (2010 - £146k).

9. PROFIT ATTRIBUTABLE TO THE COMPANY

The profit for the financial year dealt with in the financial statements of the parent company was £768k (2010 - £546k). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2011

10 TANGIBLE FIXED ASSETS

GROUP

	Office equipment and fixtures £'000	Software £'000	Computer equipment £'000	Total £'000
Cost				
At 1 July 2010	429	1,792	449	2,670
Additions	150	393	167	710
At 30 June 2011	<u>579</u>	<u>2,185</u>	<u>616</u>	<u>3,380</u>
Depreciation				
At 1 July 2010	240	1,096	237	1,573
Provided during the year	61	260	86	407
At 30 June 2011	<u>301</u>	<u>1,356</u>	<u>323</u>	<u>1,980</u>
Net book value				
At 30 June 2011	<u>278</u>	<u>829</u>	<u>293</u>	<u>1,400</u>
At 30 June 2010	<u>189</u>	<u>696</u>	<u>212</u>	<u>1,097</u>

COMPANY

	Office equipment and fixtures £'000	Software £'000	Computer equipment £'000	Total £'000
Cost				
At 1 July 2010	190	1,791	327	2,308
Additions	78	393	143	614
At 30 June 2011	<u>268</u>	<u>2,184</u>	<u>470</u>	<u>2,922</u>
Depreciation				
At 1 July 2010	111	1,097	165	1,373
Provided during the year	22	259	64	345
At 30 June 2011	<u>133</u>	<u>1,356</u>	<u>229</u>	<u>1,718</u>
Net book value				
At 30 June 2011	<u>135</u>	<u>828</u>	<u>241</u>	<u>1,204</u>
At 30 June 2010	<u>79</u>	<u>694</u>	<u>162</u>	<u>935</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2011

11. INVESTMENTS

COMPANY	Investment in subsidiary undertakings £'000
Cost	
At 1 July 2010	119
Additions	16
	<hr/>
At 30 June 2011	135
	<hr/> <hr/>

On 4 July 2010, the company acquired 100% of the share capital of Kobalt Music Publishing Australia Pty Limited and Kobalt Music Services Australia Pty Limited for consideration of £1 each

On 22 July 2010, the company acquired 100% of the share capital of Kobalt Capital Limited for consideration of £1k

On 23 February 2011, the company acquired 100% of the share capital of Kobalt Capital Suisse Sarl for consideration of £14k

On 10 May 2011, the company acquired 100% of the share capital of Kobalt Neighbouring Rights Limited for consideration of £1k

The company's wholly owned subsidiaries are as follows

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>			
KMG Germany GmbH	Ordinary	100%	Germany
Kobalt Capital Limited	Ordinary	100%	
Kobalt Capital Suisse Sarl	Ordinary	100%	Switzerland
Kobalt Digital Licensing America Inc	Ordinary	100%	USA
Kobalt Digital Licensing Limited	Ordinary	100%	
Kobalt Digital Services America Inc	Ordinary	100%	USA
Kobalt Digital Services Limited	Ordinary	100%	
Kobalt Music Administration Limited	Ordinary	100%	
Kobalt Music Publishing (Italia) Limited	Ordinary	100%	
Kobalt Music Publishing America Inc	Ordinary	100%	USA
Kobalt Music Publishing Australia Pty Limited	Ordinary	100%	Australia
Kobalt Music Publishing Limited	Ordinary	100%	
Kobalt Music Scandinavia AB	Ordinary	100%	Sweden
Kobalt Music Services America Inc	Ordinary	100%	USA
Kobalt Music Services Australia Pty Limited	Ordinary	100%	Australia
Kobalt Music Services Limited	Ordinary	100%	
Kobalt Neighbouring Rights Limited	Ordinary	100%	
Kojam Music Limited	Ordinary	100%	
Kollector Limited	Ordinary	100%	

The principal activity of Kobalt Digital Licensing Limited, Kobalt Digital Services Limited, Kobalt Digital Licensing America, Inc and Kobalt Digital Services America, Inc is the distribution and licensing of music recordings

The principal activity of Kobalt Neighbouring Rights Limited is the collection of neighbouring rights income on behalf of clients

The principal activity of Kobalt Capital Limited and Kobalt Capital (Suisse) Sarl is the provision of investment advice

The principal activity of all other group entities is music publishing, except for Kobalt Music Publishing (Italia) Limited and Kollector Limited as they are dormant

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2011

12. DEBTORS

	GROUP		COMPANY	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Amounts owed by group undertakings	-	-	27,892	19,767
Other debtors	493	344	203	180
Prepayments	10,223	4,690	223	189
Accrued income	14,447	9,447	-	-
	<u>25,163</u>	<u>14,481</u>	<u>28,318</u>	<u>20,136</u>

Other debtors includes £213k (2010 - £152k) relating to rent deposits on leases that are due to expire after more than one year from the balance sheet date

An element of the prepayments balance relates to royalty advances made to artists. The company expects a proportion of this debt to be recovered after more than one year from the balance sheet date. However it is not practical for the company to accurately calculate or estimate this balance and for this reason the amount has not been separately identified.

All other debtors are due within one year.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		COMPANY	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Bank loan	4,000	-	4,000	-
Amounts owed to group undertakings	-	-	10,491	7,721
Trade creditors	163	282	85	100
Accruals and deferred income	33,590	22,771	417	176
Other taxes and social security costs	194	111	179	98
Other creditors	204	164	21	16
	<u>38,151</u>	<u>23,328</u>	<u>15,193</u>	<u>8,111</u>

The bank loan is secured by a charge over the group's assets. The loan was repaid on 1 July 2011 with interest charged at 2.8%.

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	GROUP		COMPANY	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Convertible loan	-	4,056	-	4,056

The convertible loan stock of £4,056k was converted into ordinary shares on 31 December 2010.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2011

15. OPERATING LEASE COMMITMENTS

The group has annual commitments under non-cancellable operating leases are as follows

	Plant and machinery		Land and building	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Operating leases which expire				
Within one year	5	-	15	69
Between one and five years	7	11	124	152
After more than five years	-	-	120	81
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

16. CALLED UP SHARE CAPITAL

	2011 £'000	2010 £'000
Called up, allotted and fully paid		
5,617,949 (2010 - 4,902,315) ordinary shares of £0.05 each	281	245
1,030,274 (2010 - 1,030,274) BA ordinary shares of £0.005 each	5	5
	<u> </u>	<u> </u>
	286	250
	<u> </u>	<u> </u>

In August 2010, 5,016 ordinary shares of £0.05 each were issued for consideration of £14k as a result of the exercise of share options

In December 2010, 684,986 ordinary shares of £0.05 each were issued for consideration of £4,062k as a result of the conversion of loan stock

In February 2011, 1,248 ordinary shares of £0.05 each were issued for consideration of £3k as a result of the exercise of share options

In March 2011, 5,016 ordinary shares of £0.05 each were issued for consideration of £14k as a result of the exercise of share options

In May 2011, 4,800 ordinary shares of £0.05 each were issued for consideration of £11k as a result of the exercise of share options

In June 2011, 14,568 ordinary shares of £0.05 each were issued for consideration of £40k as a result of the exercise of share options

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2011

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

GROUP	Called up share capital £'000	Share premium account £'000	Share option reserve £'000	Profit and loss account £'000	Sharehol- ders' deficit 2011	Sharehol- ders' deficit 2010
					Total £'000	Total £'000
At 1 July	250	11,046	874	(15,420)	(3,250)	(1,793)
Loss for the year	-	-	-	(1,936)	(1,936)	(1,889)
New equity share capital subscribed	36	4,110	-	-	4,146	302
Costs of issuing shares	-	-	-	-	-	(16)
Equity settled share based payment charge	-	-	15	-	15	146
At 30 June	<u>286</u>	<u>15,156</u>	<u>889</u>	<u>(17,356)</u>	<u>(1,025)</u>	<u>(3,250)</u>

COMPANY	Called up share capital £'000	Share premium account £'000	Share option reserve £'000	Profit and loss account £'000	Sharehol- ders' deficit 2011	Sharehol- ders' deficit 2010
					Total £'000	Total £'000
At 1 July	250	11,046	874	(2,297)	9,873	8,895
Profit for the year	-	-	-	768	768	546
New equity share capital subscribed	36	4,110	-	-	4,146	302
Costs of issuing shares	-	-	-	-	-	(16)
Equity settled share based payment charge	-	-	15	-	15	146
At 30 June	<u>286</u>	<u>15,156</u>	<u>889</u>	<u>(1,529)</u>	<u>14,802</u>	<u>9,873</u>

Share option reserve

The group has 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 group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. A corresponding entry is recognised in the share option reserve.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2011

18. FINANCIAL INSTRUMENTS

Trading activities include the payment and receipt of royalties in Japanese Yen denomination which creates exposure to foreign exchange rates. This currency risk is managed by entering into forward foreign exchange barrier options. As at 30 June 2011 the fair value of these options were unrecognised losses of £24k (2010 - nil)

19. POST BALANCE-SHEET EVENTS

On 26 July 2011, the company acquired 96% of the share capital of Kobalt Music Royalties SCA SICAV-SIF

On 9 December 2011, Kobalt Music Group Limited acquired 100% of the share capital of AWAL (UK) Limited