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Kobalt Music Group Limited

Report and Financial Statements

30 June 2004

 ERNST & YOUNG



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COMPANIES HOUSE 06/07/05

Kobalt Music Group Limited

Registered No: 4018752

Directors

W 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

33 Glasshouse Street
London
W1B 5DG

Directors' report

The directors present their report and financial statements for the period from 1 April 2003 to 30 June 2004.

Results and dividends

The loss for the period amounted to £779,340. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

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

The company performed in line with directors' expectations during the period ended 30 June 2004.

Directors and their interests

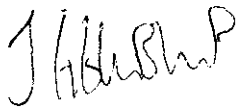
The directors at 30 June 2004 and their interests in the share capital of the company were as follows:

	<i>At 30 June 2004 Ordinary shares</i>	<i>At 1 April 2003 Ordinary shares</i>
W Ahdritz	—	—
J Ekelund	—	—
Newmedia Spark Directors Ltd	—	—
A J Palm (appointed 1 December 2003)	—	—

Auditors

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

By order of the board



J P Fitzherbert-Brockholes
Secretary

2005

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 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.

Independent auditors' report to the members of Kobalt Music Group Limited

We have audited the company's financial statements for the period ended 30 June 2004 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 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 of the state of affairs of the company as at 30 June 2004 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

4 July 2005

Profit and loss account

for the period from 1 April 2003 to 30 June 2004

	<i>Notes</i>	<i>15 Months to 30 Jun 04 £</i>	<i>Year to 31 Mar 03 £</i>
Turnover	3	732,992	819,572
Administrative expenses		1,563,292	1,548,150
Operating loss	4	<u>(830,300)</u>	<u>(728,578)</u>
Interest receivable and similar income	7	639	742
Interest payable and similar charges	8	(22,971)	(25,805)
		<u>(22,332)</u>	<u>(25,063)</u>
Loss on ordinary activities before taxation		<u>(852,632)</u>	<u>(753,641)</u>
Tax on loss on ordinary activities	9	73,292	64,706
Loss for the financial period		<u>(779,340)</u>	<u>(688,935)</u>

Statement of total recognised gains and losses

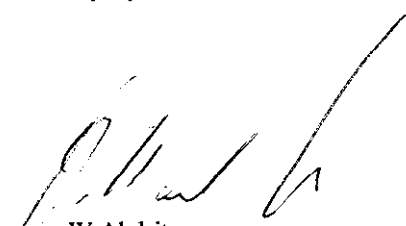
There are no recognised gains or losses other than the loss of £779,340 attributable to the shareholders for the period ended 30 June 2004 (2003 - loss of £688,935).

Balance sheet

at 30 June 2004

	Notes	30 Jun 04 £	31 Mar 03 £
Fixed assets			
Intangible assets	10	125,675	165,362
Tangible assets	11	21,489	13,896
Investments	12	94,170	74,170
		<u>241,334</u>	<u>253,428</u>
Current assets			
Debtors	13	1,393,774	1,548,014
Cash at bank		23,413	182,347
		<u>1,417,187</u>	<u>1,730,361</u>
Creditors: amounts falling due within one year	14	358,386	622,823
		<u>1,058,801</u>	<u>1,107,538</u>
Net current assets		<u>1,300,135</u>	<u>1,360,966</u>
Total assets less current liabilities			
		<u>1,300,135</u>	<u>1,360,966</u>
Creditors: amounts falling due after more than one year, including convertible debts			
	15	684,233	–
		<u>615,902</u>	<u>1,360,966</u>
Capital and reserves			
Called up share capital	18	140,597	138,853
Share premium account	19	3,284,874	3,252,342
Profit and loss account	19	(2,809,569)	(2,030,229)
		<u>615,902</u>	<u>1,360,966</u>
Equity shareholders' funds			
		<u>615,902</u>	<u>1,360,966</u>

ERNST & YOUNG


 W Ahdritz
 Director
 23 June 2005

Notes to the financial statements

at 30 June 2004

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 on the intra-group balances of £1,084,375 (2003 - £469,973) from Kobalt Music Services Ltd and £381,682 (2003 - £629,183) 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 that might become necessary. They therefore believe that the going concern basis is appropriate. 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

Basis of preparation

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 undertaking comprise a small group. The company has therefore taken advantage of the exemptions provided by 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.

Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

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

Computer equipment - 33% of cost per annum

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.

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.

Notes to the financial statements

at 30 June 2004

2. Accounting policies (continued)

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.

Deferred taxation

Deferred tax 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 a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas 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.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Operating lease agreements

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

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.

3. Turnover

Turnover represents management charges received from the company's subsidiaries, net of value added tax, in respect of management services provided.

An analysis of turnover by geographical market is given below:

	<i>15 Months to</i> 30 Jun 04	<i>Year to</i> 31 Mar 03
	£	£
United Kingdom	700,000	695,019
Europe	32,992	124,553
	<u>732,992</u>	<u>819,572</u>

Notes to the financial statements

at 30 June 2004

4. Operating loss

This is stated after charging:

	<i>15 Months to</i> 30 Jun 04	<i>Year to</i> 31 Mar 03
	£	£
Auditors' remuneration - audit services	<u>14,000</u>	<u>10,000</u>
Depreciation of owned fixed assets	16,081	19,351
Amortisation	<u>39,687</u>	<u>33,072</u>
	<u>55,768</u>	<u>52,423</u>
Operating lease rentals - land and buildings	92,238	69,105
Net loss on foreign currency translation	<u>2,017</u>	<u>48,669</u>

5. Staff costs

	<i>15 Months to</i> 30 Jun 04	<i>Year to</i> 31 Mar 03
	£	£
Wages and salaries	795,513	593,575
Social security costs	98,855	65,177
Staff pension contributions	1,375	-
	<u>895,743</u>	<u>658,752</u>

The monthly average number of employees during the period was as follows:

	<i>15 Months to</i> 30 Jun 04	<i>Year to</i> 31 Mar 03
	No.	No.
Administrative staff	<u>12</u>	<u>9</u>

6. Directors' emoluments

	<i>15 Months to</i> 30 Jun 04	<i>Year to</i> 31 Mar 03
	£	£
Emoluments	<u>137,864</u>	<u>95,819</u>

7. Interest receivable and similar income

	<i>15 Months to</i> 30 Jun 04	<i>Year to</i> 31 Mar 03
	£	£
Other similar income receivable	<u>639</u>	<u>742</u>

Notes to the financial statements

at 30 June 2004

8. Interest payable and similar charges

	<i>15 Months to</i> 30 Jun 04	<i>Year to</i> 31 Mar 03
	£	£
Bank interest payable	–	304
Interest payable	22,971	25,501
	<u>22,971</u>	<u>25,805</u>

9. Taxation

(a) Tax on loss on ordinary activities
The tax credit is made up as follows:

	<i>15 Months to</i> 30 Jun 04	<i>Year to</i> 31 Mar 03
	£	£
<i>Current tax:</i>		
UK corporation tax	(73,292)	(68,258)
Tax under provided in previous periods	–	3,552
Total current tax (note 9(b))	<u>(73,292)</u>	<u>(64,706)</u>

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the period differs from the standard rate of corporation tax in the UK of 30% (2003 - 30%). The differences are reconciled below:

	<i>15 Months to</i> 30 Jun 04	<i>Year to</i> 31 Mar 03
	£	£
Loss on ordinary activities before taxation	<u>(852,632)</u>	<u>(753,641)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 - 30%)	(255,790)	(226,092)
Adjustments to tax in respect of previous periods	–	3,552
Expenses not deductible for tax purposes	4,680	76,322
Depreciation in excess of capital allowances	7,478	4,119
Other timing differences	–	197
Tax losses carried forward	152,017	60,132
Utilisation of tax losses for research and development tax credit	137,423	127,983
Uplift on qualifying research and development expenditure	(45,808)	(42,661)
Research and development tax credit	<u>(73,292)</u>	<u>(68,258)</u>
Total current tax (note 9(a))	<u>(73,292)</u>	<u>(64,706)</u>

Notes to the financial statements

at 30 June 2004

9. Taxation (continued)

(c) Deferred tax

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

	30 Jun 04	<i>Year to</i> 31 Mar 03
	£	£
Capital allowances in advance of depreciation	(3,062)	(308)
Tax losses available	401,891	249,874
Other timing differences	197	197
	<u>399,026</u>	<u>249,763</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> £
Cost:	
At 1 April 2003 and 30 June 2004	<u>285,952</u>
Amortisation:	
At 1 April 2003	120,590
Provided during the period	<u>39,687</u>
At 30 June 2004	<u>160,277</u>
Net book value:	
At 30 June 2004	<u>125,675</u>
At 1 April 2003	<u>165,362</u>

11. Tangible fixed assets

	<i>Computer equipment</i> £
Cost:	
At 1 April 2003	35,531
Additions	24,929
Disposals	<u>(12,733)</u>
At 30 June 2004	<u>47,727</u>
Depreciation:	
At 1 April 2003	21,635
Provided during the period	13,795
Disposals	<u>(9,192)</u>
At 30 June 2004	<u>26,238</u>
Net book value:	
At 30 June 2004	<u>21,489</u>
At 1 April 2003	<u>13,896</u>

Notes to the financial statements

at 30 June 2004

12. Investments

	<i>Shares in group undertakings £</i>
Cost:	
At 1 April 2003	74,170
Additions	20,000
At 30 June 2004	<u>94,170</u>

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

<i>Company</i>	<i>Class of shares</i>	<i>% of shares</i>	<i>Country of registration or incorporation (if not England and Wales)</i>
<i>Subsidiary undertakings</i>			
Diesel 2 Publishing & 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	100	

* Held by Kojam Music Limited

** Held by Diesel 2 Publishing & 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 or year £</i>
Kojam Music Limited	(358,557)	39,304
Diesel 2 Publishing & Management AB	187,797	(37,916)
Kobalt Music Publishing Limited	6,698	(8,742)
Kobalt Music Services Limited	(1,095,402)	(575,674)
Kojam Music AB	7,778	(157)
Kollector Limited	1	-
Monumental Songs AB	8,461	(1,587)
Kobalt Music Publishing (Italia) Limited	1	-
Kobalt Music Administration Limited	1	-

Notes to the financial statements

at 30 June 2004

13. Debtors

	30 Jun 04	31 Mar 03
	£	£
Amounts owed by group undertakings	1,267,283	1,132,563
Corporation tax repayable	73,292	223,258
Other debtors	53,199	192,193
	<u>1,393,774</u>	<u>1,548,014</u>

14. Creditors: amounts falling due within one year

	30 Jun 04	31 Mar 03
	£	£
Bank overdraft	–	8,467
Trade creditors	149,468	112,968
Amounts owed to group undertakings	63,470	316,984
Other taxation and social security	95,674	63,743
Other creditors	49,774	120,661
	<u>358,386</u>	<u>622,823</u>

15. Creditors: amounts falling due after more than one year, including convertible debts

	30 Jun 04	31 Mar 03
	£	£
Loans (note 15)	504,000	–
Amounts owed to group undertakings	174,180	–
Other creditors	6,053	–
	<u>684,233</u>	<u>–</u>

16. Loans

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 is to be redeemed by Kobalt Music Group Limited on 17 October 2005, subject to the satisfaction of certain conditions set out in the Loan Stock instrument.

17. Commitments under operating leases

At 30 June 2004 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>	
	30 Jun 04	31 Mar 03
	£	£
Operating leases which expire:		
Within one year	<u>78,000</u>	<u>78,000</u>

Notes to the financial statements

at 30 June 2004

18. Share capital

	30 Jun 04		<i>Authorised</i> 31 Mar 03	
	£		£	
Ordinary shares of £0.05 each	<u>250,000</u>		<u>250,000</u>	
	<i>Allotted, called up and fully paid</i>			
	30 Jun 04		31 Mar 03	
	No.	£	No.	£
Ordinary shares of £0.05 each	2,811,931	<u>140,597</u>	2,777,063	<u>138,853</u>

On 18 May 2005, 10,000 ordinary shares of 5p each were issued with an aggregate nominal value of £500. The consideration received by the company for these shares was £23,000.

On 25 June 2005, 20,000 ordinary shares of 5p each were issued with an aggregate nominal value of £1,000. The consideration received by the company for these shares was £46,000.

On 20 February 2004, 4,868 ordinary shares of 5p each were issued with an aggregate nominal value of £244. The consideration received by the company for these shares was £9,006.

19. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Share premium</i>	<i>Profit and loss</i>	<i>Total share-</i>
	£	account	account	holders' funds
	£	£	£	£
At 1 April 2002	114,573	2,317,315	(1,341,294)	1,090,594
Loss for the year	–	–	(688,935)	(688,935)
New equity share capital subscribed	24,280	972,980	–	997,260
Share premium costs of share issue	–	(37,953)	–	(37,953)
At 31 March 2003	<u>138,853</u>	<u>3,252,342</u>	<u>(2,030,229)</u>	<u>1,360,966</u>
Loss for the period	–	–	(779,340)	(779,340)
New equity share capital subscribed	1,744	32,532	–	34,276
At 30 June 2004	<u>140,597</u>	<u>3,284,874</u>	<u>(2,809,569)</u>	<u>615,902</u>

Notes to the financial statements

at 30 June 2004

20. Related party transactions

Debtors

Amounts owed by group undertakings are as follows:

	30 Jun 04	31 Mar 03
	£	£
Kojam Music Limited	181,710	629,183
Kobalt Music Publishing Limited	–	14,725
Kobalt Music Services Limited	1,084,375	469,693
Kollector Limited	15	15
Monumental Songs AB	1,182	1,182
Kojam AB	–	17,765

Creditors: amounts falling due within one year

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

	30 Jun 04	31 Mar 03
	£	£
Spark Services Limited, a company controlled by a shareholder	85,081	42,686

Amounts owed to group undertakings are as follows:

	30 Jun 04	31 Mar 03
	£	£
Diesel 2 Publishing and Management AB	–	316,982
Kojam Music AB	63,470	–
Kobalt Music Administration Limited	–	1
Kobalt Music Publishing (Italia) Limited	–	1

Creditors: amounts falling due after more than one year

Amounts owed to group undertakings are as follows:

	30 Jun 04	31 Mar 03
	£	£
Diesel 2 Publishing and Management AB	174,180	–

Profit and loss transactions

The following related party transactions arose in the year:

	30 Jun 04	31 Mar 03
	£	£
J Ekelund, a director		2,999
T Sten, a director		14,270
Kobalt Music Publishing Limited*		–
Kobalt Music Services Limited*	700,000	466,351
Kojam Music Limited*	–	228,668
Spark Services Limited, a company controlled by a shareholder	136,162	80,889
Diesel 2 Publishing and Management AB, a subsidiary incorporated in Sweden	32,992	124,553

*subsidiary undertakings