

Company Registration No. 4018752

KOBALT MUSIC GROUP LIMITED

Report and Financial Statements

30 June 2008

(- 29/04/2009)

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KOBALT MUSIC GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2008

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KOBALT MUSIC GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2008

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

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

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 LLP
Chartered Accountants and Registered Auditors
Cambridge

KOBALT MUSIC GROUP LIMITED

CHAIRMAN'S STATEMENT

Chairman's Statement

I am pleased to report that 2007-08 was another excellent year for Kobalt, with group revenue up 56.7% on the previous year and group net publisher share (NPS) up 45.1%.

Kobalt had significant chart successes during the year leading to the company becoming the top independent publisher in the US, UK and Germany in 2008. For example "Bleeding Love" performed by Leona Lewis reached No 1 on many charts worldwide and is written by Ryan Tedder, a Kobalt signing during the year.

A number of other well known names signed to Kobalt during the year including Lionel Ritchie, The Verve, Rammstein, Swedish metal band In Flames and Nate "Danja" Hills, one of the world's top writer-producers who has worked with global stars like Madonna, Justin Timberlake, Timbaland and Nelly Furtado. As well as these artists and writers, the group has also signed deals with major catalogue buyers and owners such as Crosstown Songs, Music Publishing Company of America, National Geographic and Getty Images.

Kobalt continues to improve its products and services; for example in June 2008 Kobalt launched its third generation portal, which now offers a unique online pipeline advance facility and real-time synch information to all our 800 clients.

In February 2008, Balderton Capital made a significant equity investment in Kobalt which is helping to leverage the strong brand Kobalt has developed and is supporting our expansion, mainly in the US, the world's biggest music market. We welcome Tim Bunting, General Partner at Balderton Capital and former Vice Chairman of Goldman Sachs International, as a new board member. The board is looking forward to working together to continue building Kobalt as a leading global online music publisher.

Post Year End Update

The revenue numbers for 2008-09 to date again show rapid and indeed accelerating growth of our main business lines. Our unique proprietary technology continues to scale seamlessly and our new deal pipeline has grown significantly as artists, managers and industry figures see and experience the benefits of our services. New signings include Kid Rock and Kelly Clarkson to name just two of our new high profile clients.

Furthermore we have added significant and talented experienced senior staff in New York and Los Angeles in the past year. This has helped us accelerate the growth of our synch business.

Finally I would like on behalf of all shareholders to thank the team at Kobalt worldwide for their extraordinary vision, commitment and energy in building a world class innovative business in a very difficult period of the economic cycle.

Thomas 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 2008.

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 45.4% over the prior year and operating loss margin has improved by 12.8%, with the result after tax improving from a loss of £352,000 to a profit of £27,000. 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 are as follows:

	2008	2007
Increase in turnover	45.4%	26.3%
Operating loss	(£197,000)	(£398,000)
Operating loss percentage	(6.6%)	(19.4%)
Average employees	38	28

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 company is financed by a bank loan and by equity.

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: 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.

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.

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

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 and currency 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. 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.

Liquidity risk

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

DIRECTORS

The directors who served during the year were as follows:

W B A Ahdriz
J Ekelund
Newmedia Spark Directors Limited
A J Palm
J P Fitzherbert-Brockholes
C Broadhurst
T Bunting (appointed 20 February 2008)

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.

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

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 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 B Fitzherbert-Brockholes

Secretary

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 2008 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 20. 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 2008 and of its profit 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.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Cambridge, United Kingdom

30 April 2009

KOBALT MUSIC GROUP LIMITED

PROFIT AND LOSS ACCOUNT Year ended 30 June 2008

	Note	2008 £'000	2007 £'000
TURNOVER	2	2,991	2,057
Administrative expenses		<u>(3,188)</u>	<u>(2,455)</u>
OPERATING LOSS	4	(197)	(398)
Interest receivable and similar income	5	324	164
Interest payable and similar charges	6	<u>(100)</u>	<u>(118)</u>
PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		27	(352)
Tax on profit (loss) on ordinary activities	7	<u>-</u>	<u>-</u>
PROFIT (LOSS) FOR THE FINANCIAL YEAR	16	<u>27</u>	<u>(352)</u>

All activities derive from continuing operations.

There are no recognised gains and losses for the current and preceding financial years other than the profit of £27,000 (2007 - loss of £352,000) shown above. Accordingly, no statement of total recognised gains and losses has been presented.

KOBALT MUSIC GROUP LIMITED

BALANCE SHEET 30 June 2008

	Note	2008 £'000	2007 £'000
FIXED ASSETS			
Tangible assets	9	690	609
Investments	10	95	95
		<u>785</u>	<u>704</u>
CURRENT ASSETS			
Debtors	11	8,474	4,185
Cash at bank and in hand		59	31
		<u>8,533</u>	<u>4,216</u>
CREDITORS: amounts falling due within one year	12	<u>(1,988)</u>	<u>(2,595)</u>
NET CURRENT ASSETS		<u>6,545</u>	<u>1,621</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,330	2,325
CREDITORS: amounts falling due after more than one year	13	<u>(6)</u>	<u>(1)</u>
		<u>7,324</u>	<u>2,324</u>
CAPITAL AND RESERVES			
Called up share capital	15	241	199
Share premium account	16	10,678	6,002
Share option reserve	16	496	241
Profit and loss account	16	(4,091)	(4,118)
SHAREHOLDERS' FUNDS	16	<u>7,324</u>	<u>2,324</u>

These financial statements were approved by the Board of Directors and authorised for issue on 24 APRIL 2009

Signed on behalf of the Board of Directors


Director

KOBALT MUSIC GROUP LIMITED

CASH FLOW STATEMENT

Year ended 30 June 2008

	Note	2008 £'000	2007 £'000
Net cash outflow from operating activities	1	(4,066)	(1,130)
Returns on investments and servicing of finance			
Interest received		324	164
Interest paid		(100)	(118)
Net cash inflow from returns on investments and servicing of finance		224	46
Taxation		-	-
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(75)	(83)
Net cash outflow from capital expenditure and financial investment		(75)	(83)
Net cash outflow before financing		(3,917)	(1,167)
Financing			
New short term loans		(900)	900
Share capital issued		4,718	196
Capital element of finance lease rental payments		(12)	(17)
Net cash inflow from financing		3,806	1,079
Decrease in cash	2/3	(111)	(88)

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CASH FLOW STATEMENT

Year ended 30 June 2008

	2008 £'000	2007 £'000	
1. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES			
Operating loss	(197)	(398)	
Depreciation of tangible assets	65	57	
Amortisation of intangible assets	161	145	
Capitalised labour costs	(215)	(215)	
Increase in debtors	(4,289)	(1,914)	
Increase in creditors within one year	154	954	
Expense arising on issue of share options	255	241	
	<u>(4,066)</u>	<u>(1,130)</u>	
Net cash outflow from operating activities	<u>(4,066)</u>	<u>(1,130)</u>	
 2. ANALYSIS OF NET DEBT			
	At 1 July 2007 £	Cash flow £	At 30 June 2008 £
Cash at bank and in hand	31	26	57
Bank overdrafts	(98)	(137)	(235)
	<u>(67)</u>	<u>(111)</u>	<u>(178)</u>
Debts falling due within one year	(900)	900	-
Finance leases	(8)	(5)	(13)
	<u>(908)</u>	<u>895</u>	<u>(13)</u>
Net debt	<u>(975)</u>	<u>784</u>	<u>(191)</u>
 3. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
	2008 £'000	2007 £'000	
Decrease in cash in the year	(111)	(88)	
Cash outflow (inflow) from change in debt and lease financing	895	(883)	
Movement in net debt in the year	<u>784</u>	<u>(971)</u>	
Opening net debt	(975)	(4)	
Closing net debt	<u>(191)</u>	<u>(975)</u>	

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2008

1. 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, in accordance with applicable United Kingdom accounting standards and on a going concern basis.

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

During the year the group met its working capital requirements through a combination of trading income and an equity investment injection of £5m from Balderton Capital, a venture capitalist. The directors have prepared projected cash flow information for the period ending 30 June 2010 and beyond. These projections anticipate that the group will be able to operate solely from cash generated from trading revenue. No further capital injections to the group are expected or considered necessary.

The directors acknowledge that the group is trading in an uncertain economic environment, although it is their belief that it is well positioned to meet its business objectives. The directors have examined the results of sensitivity analysis 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.

The group also has an agreed £4m bank borrowing facility arranged in January 2009, which it has not used up to the time of approving these accounts and is available for the period through to 31 December 2009. The directors are not aware of any reason why this facility will not be renewed when it expires.

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.

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 2008

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	10% per annum
Office equipment	20% per annum
Computer equipment	33% per annum
Purchased software	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.

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 2008

2. 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:

	2008 £'000	2007 £'000
United Kingdom	2,798	1,883
Rest of Europe	42	12
Rest of World	151	162
	<u>2,991</u>	<u>2,057</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2008 £'000	2007 £'000
Directors' remuneration		
Directors' emoluments	<u>365</u>	<u>367</u>
Emoluments of highest paid director	<u>196</u>	<u>207</u>
	No	No
Average number of persons employed by the company during the year was:		
Administration	<u>38</u>	<u>28</u>
	£'000	£'000
Staff costs during the year (including directors)		
Wages and salaries	1,346	1,082
Social security costs	178	149
Share based payment charge	255	241
	<u>1,779</u>	<u>1,472</u>

4. OPERATING LOSS

	2008 £'000	2007 £'000
Operating loss is after charging		
Depreciation of fixed assets		
Owned assets	213	185
Leased assets	13	17
Operating lease rentals		
Plant and machinery	10	11
Land and buildings	95	79
Foreign exchange losses	226	61
The analysis of auditors' remuneration is as follows:		
Fees payable to the company's auditors for the audit of the company's annual accounts	7	5
Other services relating to tax	6	2
	<u>6</u>	<u>2</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2008

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2008 £'000	2007 £'000
Intra-group loan interest	273	162
Other interest receivable	51	2
	<u>324</u>	<u>164</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £'000	2007 £'000
Bank loans and overdraft	30	13
Finance lease interest	3	4
Intra-group loan interest	67	101
	<u>100</u>	<u>118</u>

7. TAX ON PROFIT (LOSS) ON ORDINARY ACTIVITIES

	2008 £'000	2007 £'000
Current tax		
United Kingdom corporation tax based on the result for the year at 29.5% (2007 - 30%)	-	-
Total current tax	<u>-</u>	<u>-</u>

The standard rate of tax for the year, based on the United Kingdom standard rate of corporation tax is 29.5% (2007 - 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:

	2008 £'000	2007 £'000
Profit (loss) on ordinary activities before tax	<u>27</u>	<u>(352)</u>
Tax on profit (loss) on ordinary activities at standard rate	8	(106)
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	9	20
Capital allowances in excess of depreciation	67	(30)
Other timing differences	75	73
Brought forward tax losses utilised	(63)	43
Group relief	(96)	-
Total actual amount of current tax	<u>-</u>	<u>-</u>

In March 2007 the UK Government announced that they would introduce legislation that would reduce the corporation tax rate to 28% with effect from 1 April 2008. This legislation was substantively enacted on the 26 June 2007. As a consequence the deferred tax balances are now stated at 28% of the temporary differences, in addition the blended current tax rate for the year ended 30 June 2008 has reduced to 29.5%.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2008

7. TAX ON PROFIT (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:

	2008 £'000	2007 £'000
Capital allowances in excess of depreciation	22	(15)
Other timing differences	139	50
Tax losses available	507	606
	<u>668</u>	<u>641</u>

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

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.

During the year, one employee exercised share options. The exercise price was £2.70 and these options were exercised on 14 March 2008.

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

	2008		2007	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of year	1,077,638	2.78	846,493	2.52
Granted during the year	24,584	5.05	341,176	3.14
Forfeited during the year	(1,512)	2.75	(4,032)	2.75
Exercised during the year	(1,008)	2.75	(105,999)	1.85
Expired during the year	-		-	
	<u>1,099,702</u>	2.83	<u>1,077,638</u>	2.78
Exercisable at the end of the year	<u>1,080,427</u>	2.79	<u>900,296</u>	2.69

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2008

8. 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	2008	2007
Weighted average share price	£4.82	£2.79
Weighted average exercise price	£5.05	£3.14
Expected volatility	25%	25%
Weighted average expected life	6.6 years	9.6 years
Weighted average risk-free rate	4.8%	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 £255,000 related to equity-settled share-based payment transactions in the year ended 30 June 2008 (2007 - £241,000).

9. TANGIBLE FIXED ASSETS

	Office equipment and fixtures £'000	Computer equipment £'000	Software £'000	Total £'000
Cost				
At 1 July 2007	171	135	916	1,222
Additions	32	58	217	307
At 30 June 2008	203	193	1,133	1,529
Depreciation				
At 1 July 2007	31	94	488	613
Provided during the year	25	40	161	226
At 30 June 2008	56	134	649	839
Net book value				
At 30 June 2008	147	59	484	690
At 30 June 2007	140	41	428	609

Included above are leased assets with a net book value of £13,000 (2007 - £8,000).

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2008

10. INVESTMENTS

	Investment in subsidiary undertakings £'000 £
Cost	
At 1 July 2007 and 30 June 2008	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>			
Kobalt Music Scandinavia 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	100%	USA
Kobalt Music Services America Inc	Ordinary	100%	USA
Kobalt Digital Services Limited	Ordinary	100%	
Kobalt Digital Licensing Limited	Ordinary	100%	
Kobalt Digital Services America Inc	Ordinary	100%	USA
Kobalt Digital Licensing America Inc	Ordinary	100%	USA

* Held by Kojam Music Limited

** Held by Kobalt Music Scandinavia AB

	Aggregate capital and reserves £'000	Profit (loss) for the year £'000
Kobalt Music Scandinavia AB	238	12
Kojam Music AB	13	2
Monumental Songs AB	10	-
Kobalt Music Publishing Limited	(89)	(176)
Kobalt Music Services Limited	(4,607)	(1,213)
Kojam Music Limited	(560)	(83)
Kobalt Music Administration Limited	(6)	15
Kollector Limited	(dormant)	-
Kobalt Music Publishing (Italia) Limited	(dormant)	-
Kobalt Music Publishing America Inc	(607)	(175)
Kobalt Music Services America Inc	(1,548)	(673)
Kobalt Digital Services Limited	(dormant)	-
Kobalt Digital Licensing Limited	(dormant)	-
Kobalt Digital Services America Inc	(dormant)	-
Kobalt Digital Licensing America Inc	(dormant)	-

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 2008

10. INVESTMENTS (continued)

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

11. DEBTORS

	2008 £'000	2007 £'000
Amounts owed by group undertakings	8,322	3,974
Other debtors	72	153
Prepayments and accrued income	80	58
	<u>8,474</u>	<u>4,185</u>

All debtors are due within one year.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £'000	2007 £'000
Bank loans	-	900
Bank overdraft	237	98
Obligations under finance leases and hire purchase contracts	7	7
Trade creditors	110	41
Amounts owed to group undertakings	1,306	1,260
Other taxes and social security costs	141	54
Other creditors	31	16
Accruals and deferred income	156	219
	<u>1,988</u>	<u>2,595</u>

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

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

	2008 £'000	2007 £'000
Obligations under finance leases and hire purchase contracts	<u>6</u>	<u>1</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2008

14. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Amounts due under finance leases and hire purchase contracts:

	2008 £'000	2007 £'000
Amounts payable:		
Within one year	8	9
In one to five years	7	1
	<u>15</u>	<u>10</u>
Less: finance charges allocated to future periods	(2)	(2)
	<u>13</u>	<u>8</u>

15. CALLED UP SHARE CAPITAL

	2008 £'000	2007 £'000
Authorised		
8,000,000 ordinary shares of £0.05 each	<u>400</u>	<u>400</u>
Called up, allotted and fully paid		
4,821,805 (2007 - 3,977,973) ordinary shares of £0.05 each	<u>241</u>	<u>199</u>

On 14 March 2008, 1,008 ordinary shares were issued for total consideration of £2,722 as a result of the exercise of share options.

On 20 February 2008, 842,824 ordinary shares were issues for total consideration of £4,999,969 as a result of a new subscription.

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

	Called up share capital £'000	Share premium account £'000	Share option reserve £'000	Profit and loss account £'000	Sharehol- ders' funds 2008 Total £'000	Sharehol- ders' funds 2007 Total £'000
At 1 July 2007	199	6,002	241	(4,118)	2,324	2,239
Profit (loss) for the year	-	-	-	27	27	(352)
New equity share capital subscribed	42	4,961	-	-	5,003	196
Options granted	-	-	255	-	255	241
Share issue costs	-	(285)	-	-	(285)	-
	<u>241</u>	<u>10,678</u>	<u>496</u>	<u>(4,091)</u>	<u>7,324</u>	<u>2,324</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2008

17. OPERATING LEASE COMMITMENTS

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

	Plant and machinery		Land and building	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Operating leases which expire:				
In less than one year	2	-	14	-
Between two and five years	4	11	-	-
After more than five years	-	-	81	89
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

18. CAPITAL COMMITMENTS

At the end of the financial year there were no capital commitments (2007 - £nil).

19. RELATED PARTY TRANSACTIONS

Debtors

Amounts owed by group undertakings are as follows:

	2008 £'000	2007 £'000
Kojam Music Limited	370	409
Kobalt Music Publishing Limited	5,633	1,136
Kobalt Music Services Limited	-	1,652
Kobalt Music Publishing America Inc	2,319	777
	<u> </u>	<u> </u>

Creditors: amounts falling due within one year

Amounts owed to group undertakings are as follows:

	2008 £'000	2007 £'000
Monumental AB	11	9
Kojam Music AB	15	12
Kobalt Music Administration Limited	150	478
Kobalt Music Services Ltd	244	-
Kobalt Music Scandinavia AB	315	247
Kobalt Music Services America Inc	571	514
	<u> </u>	<u> </u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2008

19. RELATED PARTY TRANSACTIONS (continued)

Profit and loss transactions

The following related party transactions arose in the year:

		2008 £'000	2007 £'000
Kobalt Music Services Limited, a subsidiary	Management fees received	1,445	1,201
Kobalt Music Publishing Limited, a subsidiary	Management fees received	1,353	682
Kobalt Music Publishing America Inc, a subsidiary	Management fees received	82	40
Kobalt Music Scandinavia AB, a subsidiary	Management fees received	42	11
Kobalt Music Services America Inc, a subsidiary	Management fees received	69	122
Kobalt Music Services Limited, a subsidiary	Interest received	81	68
Kobalt Music Publishing Limited, a subsidiary	Interest paid	-	47
Kobalt Music Publishing Limited, a subsidiary	Interest received	65	-
Kojam Music Limited, a subsidiary	Interest received	36	36
Kobalt Music Administration Limited, a subsidiary	Interest paid	13	15
Kobalt Music Publishing America Inc, a subsidiary	Interest received	91	58
Kobalt Music Services America Inc, a subsidiary	Interest paid	37	21
Kojam Music AB, a subsidiary	Interest paid	1	2
Kobalt Music Scandinavia AB, a subsidiary	Interest paid	16	15
Monumental AB	Interest paid	1	1