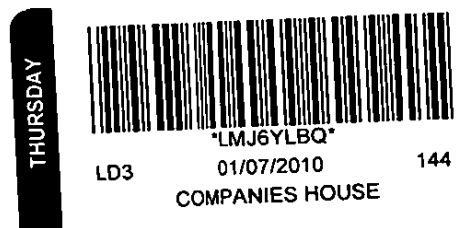


Company Registration No. 4018752

KOBALT MUSIC GROUP LIMITED

Report and Consolidated Financial Statements

30 June 2009



(- 30/06/2010)

KOBALT MUSIC GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2009

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KOBALT MUSIC GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2009

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

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

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

I am very pleased to report Kobalt Music Group has experienced another 12 months of growth including an increase in gross revenues (up 85% over last year) and in NPS, net publisher share, (up 98.8% over last year). The company continues its rise as the leading global independent music publisher and enters the new year well positioned to benefit from strategic investments in new phases of technology, expansion into new territories, addition of new client services, and increased marketing and promotion of content.

In 2009 Kobalt was ranked by several leading trade publications as having the highest market share of any independent major music publisher operating in the primary music markets of the U.S., U.K. and Germany. Kobalt achieved an 8.3% share of the U.S. market in Q4 2009. Kobalt's U.K. success was recognised by winning its second Independent Music Publisher of the Year award at the 2009 Music Week Awards. In the U.S. Kobalt clients won thirteen 2009 ASCAP Pop Awards including the Songwriter of the Year for Lukasz "Dr. Luke" Gottwald. Kobalt artists Phoenix and artist/producer/writer Ryan Tedder also celebrated 2009 Grammy awards.

The company continues to attract and retain its clientele of worldwide superstar artists and the music industry's top echelon of songwriters. During the past 12 months, the company has signed new clients such as Kelly Clarkson, Kid Rock, Massive Attack's Neal Davidge, Grammy-nominated artist Kid Cudi, Band of Horses, No. 1 DJ Tiesto, The Darkness' front man Justin Hawkins, and jazz legend Herbie Hancock. The company also signed multi-million-selling producer/songwriters Nate "Danja" Hills, Darrel Brown, Arnthor Birgisson, Greg Wells, Tokio Hotel's David Jost, Dave Roth and Pat Benzner, among many others. No Doubt, one of the biggest acts in the world, concluded two new agreements with Kobalt for copyright administration of their entire back catalogue and their next album, as well as for digital collections in the U.S. No Doubt front woman and international superstar Gwen Stefani, an existing Kobalt client, recently expanded her relationship with the company by concluding a new deal for U.S. digital collections.

Kobalt writers were behind two of the biggest worldwide chart hits of 2009 including Ke\$ha's "Tik Tok" and Katy Perry's "I Kissed a Girl." Other major chart hits by Kobalt clients were recorded by such top acts as Beyonce, Pink, the Black Eyed Peas, Jay-Z and Alicia Keys, Miley Cyrus, Britney Spears, Leona Lewis, Train, Keith Urban, among many others.

The latest round of funding in January 2010 brought in £4 million, which the company has earmarked for business development, territory expansion, marketing and the next phase of technology advancements. Kobalt will continue to set new industry standards in the upcoming year with the launch of its next version of its online copyright management tools. The Next Generation Portal 3.0 Digital will offer clients unprecedented access to detailed information on collections in digital music sales, performance royalties, and data on products tracked and audio visual performance royalties collected from licensed content in global film and TV productions. We anticipate uplift in gross collections as a result of these new features.

Kobalt currently operates in 30 territories (around 85-90% of the global collections market) and will soon launch direct collections in Singapore and Vietnam and an anticipated 10 additional territories in 2010.

With these new developments, positive cash flow and a high 98% client retention rate, the directors expect Kobalt Music Group's rapid growth to continue in 2010 and beyond.

I would like to thank the outstandingly creative and dedicated Management team and all the staff at Kobalt around the world for their extraordinary hard work and progress this year, keeping Kobalt at the very cutting edge of the music publishing industry and growing its business so impressively fast, yet again.

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 2009

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The group's principal activity is music publishing. The group head office is in London, with other offices in New York, Los Angeles, Nashville 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 85.0% over the prior year and gross margin has increased by 0.9 percentage points, but the group made a loss after tax of £2,363,000 as opposed to the previous year's loss after tax of £2,247,000. This is primarily the result of significant investment in the expansion of the group's operations in the US.

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 2008 are as follows:

	2009	2008
Increase in turnover	85.0%	56.7%
Gross profit	£4,594,000	£2,311,000
Gross profit percentage	12.2%	11.3%
Operating loss	£(2,116,000)	£(2,107,000)
Average employees	69	53

The group 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 in activity.

The balance sheet on page 9 of the financial statements shows that the group's cash position remains healthy. Although the group had net liabilities as at the balance sheet date, the issuing of £4,000,000 in convertible loan stock in January 2010, which will convert into equity no later than 31 December 2010, will return the group to a net asset position.

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.

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.

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 group'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 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.

Cash flow and currency risk

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

The group does not manage its exposure to this risk due to cost benefit considerations.

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.

However, the group is exposed to credit risk when it makes advances to clients. These advances are subject to detailed financial analysis and as far as possible are made on the basis of an existing "pipeline", i.e. royalties already earned on the works assigned which have not yet been collected.

Liquidity risk

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

CHARITABLE DONATIONS

During the year the Group made charitable donations of £19,085 (2008 - £300).

DIRECTORS

The directors who served throughout the year were as follows:

W B A Ahdritz

J Ekelund

Newmedia Spark Directors Limited (resigned 30 April 2010)

A J Palm

J P Fitzherbert-Brockholes

C Broadhurst

(resigned 1 October 2009)

T Bunting

Additionally, T Teichman was appointed as a director of the company on 1 May 2010.

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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

AUDITORS

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 auditors are 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 auditors are 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 auditors and a resolution to reappoint them as auditors 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

30 June 2010

INDEPENDENT AUDITORS' 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 2009 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 18. 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 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 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 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 (APB'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.

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 2009 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 AUDITORS' 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

Andrew Swarbrick

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

1 July 2010

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 30 June 2009

	Note	2009 £'000	2008 £'000
TURNOVER	2	37,730	20,389
Cost of sales		<u>(33,136)</u>	<u>(18,078)</u>
Gross profit		4,594	2,311
Administrative expenses		<u>(6,710)</u>	<u>(4,418)</u>
OPERATING LOSS		(2,116)	(2,107)
Interest receivable and similar income	5	1	58
Interest payable and similar charges	6	<u>(43)</u>	<u>(52)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,158)	(2,101)
Tax on loss on ordinary activities	7	<u>(201)</u>	<u>(139)</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(2,359)	(2,240)
Minority interest		<u>(4)</u>	<u>(7)</u>
LOSS FOR THE FINANCIAL YEAR	17	<u><u>(2,363)</u></u>	<u><u>(2,247)</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.

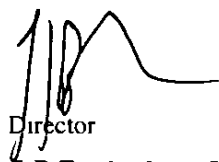
KOBALT MUSIC GROUP LIMITED

**CONSOLIDATED BALANCE SHEET
30 June 2009**

	Note	2009 £'000	2008 £'000
FIXED ASSETS			
Tangible assets	10	964	801
CURRENT ASSETS			
Debtors	12	12,716	9,980
Cash at bank and in hand		3,907	2,663
		16,623	12,643
CREDITORS: amounts falling due within one year	13	(19,380)	(13,195)
NET CURRENT LIABILITIES		(2,757)	(552)
TOTAL ASSETS LESS CURRENT LIABILITIES		(1,793)	249
CREDITORS: amounts falling due after more than one year	14	-	(6)
MINORITY INTERESTS		-	4
		(1,793)	247
CAPITAL AND RESERVES			
Called up share capital	16	242	241
Share premium account	17	10,768	10,678
Share option reserve	17	728	496
Profit and loss account	17	(13,531)	(11,168)
SHAREHOLDERS' (DEFICIT) FUNDS	17	(1,793)	247

The financial statements of Kobalt Music Group Limited, registered number 4018752, were approved by the Board of Directors and authorised for issue on **30 JUNE 2010**

Signed on behalf of the Board of Directors



Director

J P Fitzherbert-Brockholes

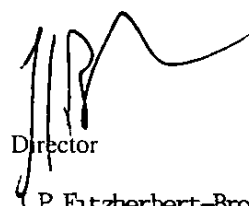
KOBALT MUSIC GROUP LIMITED

BALANCE SHEET 30 June 2009

	Note	2009 £'000	2008 £'000
FIXED ASSETS			
Tangible assets	10	807	690
Investments	11	119	95
		<u>926</u>	<u>785</u>
CURRENT ASSETS			
Debtors	12	11,333	8,474
Cash at bank and in hand		1,082	59
		<u>12,415</u>	<u>8,533</u>
CREDITORS: amounts falling due within one year	13	<u>(4,446)</u>	<u>(1,988)</u>
NET CURRENT ASSETS		<u>7,969</u>	<u>6,545</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		8,895	7,330
CREDITORS: amounts falling due after more than one year	14	<u>-</u>	<u>(6)</u>
		<u>8,895</u>	<u>7,324</u>
CAPITAL AND RESERVES			
Called up share capital	16	242	241
Share premium account	17	10,768	10,678
Share option reserve	17	728	496
Profit and loss account	17	<u>(2,843)</u>	<u>(4,091)</u>
SHAREHOLDERS' FUNDS	17	<u>8,895</u>	<u>7,324</u>

The financial statements of Kobalt Music Group Limited, registered number 4018752, were approved by the Board of Directors and authorised for issue on **30 JUNE 2010**

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 2009

	Note	2009 £'000	2008 £'000
Net cash inflow (outflow) from operating activities	1	<u>2,070</u>	<u>(2,522)</u>
Returns on investments and servicing of finance			
Interest received		1	58
Interest paid		<u>(43)</u>	<u>(52)</u>
Net cash (outflow) inflow from returns on investments and servicing of finance		<u>(42)</u>	<u>6</u>
Taxation		<u>(201)</u>	<u>(139)</u>
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		<u>(143)</u>	<u>(162)</u>
Net cash outflow from capital expenditure and financial investment		<u>(143)</u>	<u>(162)</u>
Net cash inflow (outflow) before financing		<u>1,684</u>	<u>(2,817)</u>
Financing			
Repayment of short term bank loans		-	(64)
Repayment of other short term loans		-	(1,078)
Share capital issued		91	4,718
Capital element of finance lease rental payments		<u>(7)</u>	<u>(12)</u>
Net cash inflow from financing		<u>84</u>	<u>3,564</u>
Increase in cash	2/3	<u>1,768</u>	<u>747</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT Year ended 30 June 2009

	2009 £'000	2008 £'000	
1. RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES			
Operating loss	(2,116)	(2,107)	
Depreciation of tangible assets	355	256	
Amortisation of intangible assets	-	28	
Capitalised labour costs	(375)	(215)	
Increase in debtors	(2,736)	(5,596)	
Increase in creditors	6,710	4,855	
Share option payment charge	232	255	
Loss on disposal of joint venture investments	-	2	
	<u>2,070</u>	<u>(2,522)</u>	
Net cash inflow (outflow) from operating activities	2,070	(2,522)	
 2. ANALYSIS OF NET FUNDS			
	At 1 July 2008 £	Cash flow £	At 30 June 2009 £
Cash at bank and in hand	2,663	1,244	3,907
Bank overdrafts	(604)	524	(80)
	<u>2,059</u>	<u>1,768</u>	<u>3,827</u>
Finance leases	(13)	7	(6)
	<u>2,046</u>	<u>1,775</u>	<u>3,821</u>
Net funds	2,046	1,775	3,821
 3. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
	2009 £'000	2008 £'000	
Increase in cash in the year	1,768	747	
Cash inflow from change in debt and lease financing	7	1,137	
	<u>1,775</u>	<u>1,884</u>	
Movement in net funds in the year	1,775	1,884	
Opening net funds	2,046	162	
	<u>3,821</u>	<u>2,046</u>	
Closing net funds	3,821	2,046	

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2009

1 ACCOUNTING POLICIES

Accounting convention

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

During the year the group met its working capital requirements from its trading income. After the year end, in January 2010, the group issued convertible loan stock totalling £4m. Furthermore, the group still has in place an agreed £4m bank borrowing facility arranged in January 2009, renewed in January 2010, which is available for the period through to 31 December 2010. 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 2011 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 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 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.

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 2009.

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.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2009

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	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 and so no cost to the group is involved.

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 in prepayments in note 12. 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 2009

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 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.

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.

	2009 £'000	2008 £'000
United Kingdom	6,703	4,699
Rest of Europe	12,393	7,961
North America	16,419	5,712
Rest of World	2,215	2,017
	<u>37,730</u>	<u>20,389</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2009 £'000	2008 £'000
Directors' remuneration		
Directors' emoluments	<u>992</u>	<u>368</u>

Emoluments of highest paid director	<u>786</u>	<u>196</u>
--	------------	------------

Directors' emoluments and the emoluments of the highest paid director include a one-off payment of £392,000 in respect of that director's relocation to the United States.

	No	No
Average number of persons employed by the group during the year was:		
Administration	<u>69</u>	<u>53</u>

	£'000	£'000
Staff costs during the year (including directors)		
Wages and salaries	3,080	2,016
Social security costs	318	221
Share-based payment charges	232	255
	<u>3,630</u>	<u>2,492</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2009

4. OPERATING LOSS

	2009 £'000	2008 £'000
Operating loss is after charging (crediting):		
Depreciation of fixed assets		
Owned assets	348	243
Leased assets	7	13
Amortisation	-	33
Operating lease rentals		
Land and buildings	223	207
Plant and machinery	12	10
Foreign exchange losses	229	23
The analysis of auditors' remuneration is as follows		
Fees payable to the company's auditors for the audit of the company's annual accounts	47	39
Other services relating to tax	38	17
	<u> </u>	<u> </u>

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2009 £'000	2008 £'000
Bank interest receivable	1	58
	<u> </u>	<u> </u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2009 £'000	2008 £'000
Bank loans and overdraft	34	38
Finance lease interest	1	3
Other interest payable	8	11
	<u> </u>	<u> </u>
	<u>43</u>	<u>52</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2009

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2009 £'000	2008 £'000
Current tax		
United Kingdom corporation tax based on the result for the year at 28% (2008 - 29.5%)	3	2
Double tax relief	-	-
Non-reclaimable withholding tax on royalty payments received	198	137
Total current tax	<u>201</u>	<u>139</u>

The standard rate of tax for the year, based on the United Kingdom standard rate of corporation tax is 28% - 2008 - 29.5%) 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

	2009 £'000	2008 £'000
Loss on ordinary activities before tax	<u>(2,158)</u>	<u>(2,101)</u>
Tax on loss on ordinary activities at standard rate	(604)	(620)
Factors affecting charge for the year		
Expenses not deductible for tax purposes	115	19
Capital allowances in deficit of depreciation	66	67
Other timing differences	9	105
Tax losses carried forward	857	512
Net non-reclaimable withholding tax on royalty payments received	143	137
Losses utilised	<u>(385)</u>	<u>(81)</u>
Total actual amount of current tax	<u>201</u>	<u>139</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 £6.1 million (2008 - £3.1 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.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2009

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

	2009	Weighted average exercise price (in £)	2008	Weighted average exercise price (in £)
	Number of share options		Number of share options	
Outstanding at beginning of year	1,099,702	2.83	1,077,638	2.78
Granted during the year	212,820	6.00	24,584	5.05
Forfeited during the year	(8,683)	2.40	(1,512)	2.75
Exercised during the year	(30,510)	3.00	(1,008)	2.75
Expired during the year	-		-	
Outstanding at the end of the year	<u>1,273,329</u>	3.35	<u>1,099,702</u>	2.83
Exercisable at the end of the year	<u>1,213,677</u>	3.21	<u>1,080,427</u>	2.79

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

Year ended 30 June	2009	2008
Weighted average share price	£5.55	£4.82
Weighted average exercise price	£6.00	£5.05
Expected volatility	25%	25%
Weighted average expected life	5.8 years	6.6 years
Weighted average risk-free rate	4.90%	4.8%
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 £232,000 related to equity-settled share-based payment transactions in the year ended 30 June 2009 (2008 - £255,000).

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2009

9. PROFIT ATTRIBUTABLE TO THE COMPANY

The profit for the financial year dealt with in the financial statements of the parent company was £1,248,000 (2008 - £27,000) As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company

10. TANGIBLE FIXED ASSETS

GROUP

	Office equipment and fixtures £'000	Software £'000	Computer equipment £'000	Total £'000
Cost				
At 1 July 2008	312	1,131	241	1,684
Additions	93	375	50	518
At 30 June 2009	405	1,506	291	2,202
Depreciation				
At 1 July 2008	81	649	153	883
Provided during the year	92	210	53	355
At 30 June 2009	173	859	206	1,238
Net book value				
At 30 June 2009	232	647	85	964
At 30 June 2008	231	482	88	801

Included in tangible fixed assets are leased assets with a net book value of £6,000 (2008 - £13,000)

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2009

10. TANGIBLE FIXED ASSETS (continued)

COMPANY	Office equipment and fixtures £'000	Computer equipment £'000	Software £'000	Total £'000
Cost				
At 1 July 2008	203	193	1,133	1,529
Additions	8	37	372	417
Disposals	(25)	-	-	(25)
At 30 June 2009	<u>186</u>	<u>230</u>	<u>1,505</u>	<u>1,921</u>
Depreciation				
At 1 July 2008	56	134	649	839
Provided during the year	45	38	210	293
Disposals	(18)	-	-	(18)
At 30 June 2009	<u>83</u>	<u>172</u>	<u>859</u>	<u>1,114</u>
Net book value				
At 30 June 2009	<u>103</u>	<u>58</u>	<u>646</u>	<u>807</u>
At 30 June 2008	<u>147</u>	<u>59</u>	<u>484</u>	<u>690</u>

Included above are leased assets with a net book value of £6,000 (2008 - £13,000)

11. INVESTMENTS

COMPANY	Investment in subsidiary undertakings £'000
Cost	
At 1 July 2008	95
Additions	24
At 30 June 2009	<u>119</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2009

11. INVESTMENTS (continued)

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	100%	
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%	
KMG Germany	Ordinary	100%	Germany
Kobalt Digital Services America Inc	Ordinary	100%	USA
Kobalt Digital Licensing America Inc	Ordinary	100%	USA

* Held by Kobalt Music Scandinavia AB

During the year, the company acquired the minority interest holding of Kobalt Music Administration Limited and ended the year with a 100% shareholding in this subsidiary

12. DEBTORS

	GROUP		COMPANY	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade debtors	-	7	-	-
Amounts owed by group undertakings	-	-	11,122	8,322
Other debtors	471	337	80	72
Prepayments and accrued income	12,245	9,636	131	80
	<u>12,716</u>	<u>9,980</u>	<u>11,333</u>	<u>8,474</u>

All debtors are due within one year

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2009

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		COMPANY	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Bank overdraft	80	604	-	237
Amounts owed to group undertakings	-	-	3,934	1,306
Trade creditors	730	409	95	110
Accruals and deferred income	18,353	11,943	240	156
Other taxes and social security costs	170	171	145	141
Other creditors	41	61	26	31
Obligations under finance leases and hire purchase contracts (note 15)	6	7	6	7
	<u>19,380</u>	<u>13,195</u>	<u>4,446</u>	<u>1,988</u>

The bank overdraft is secured by a charge over the company's assets

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

GROUP AND COMPANY	2009 £'000	2008 £'000
Obligations under finance leases and hire purchase contracts (note 15)	-	6

15. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

Amounts due under finance leases and hire purchase contracts

GROUP AND COMPANY	2009 £'000	2008 £'000
Amounts payable		
Within one year	7	8
In one to five years	-	7
	<u>7</u>	<u>15</u>
Less finance charges allocated to future periods	1	2
	<u>6</u>	<u>13</u>

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

	Plant and machinery		Land and building	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Operating leases which expire				
Within one year	-	2	66	14
Between one and five years	11	4	104	105
After more than five years	-	-	81	81
	<u>-</u>	<u>6</u>	<u>151</u>	<u>199</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2009

16. CALLED UP SHARE CAPITAL

	2009 £'000	2008 £'000
Called up, allotted and fully paid		
4,852,315 (2008 - 4,821,805) ordinary shares of £0.05 each	242	241

On 18 February 2009, 510 ordinary shares were issued for a total consideration of £1,405 as a result of the exercise of share options

On 15 June 2009, a further 30,000 ordinary shares were issued for a total consideration of £90,000 as a result of the exercise of share options

On 9 July 2009, 200,000 ordinary shares of £0.05 each in the authorised but unissued capital of the company were divided into 2,000,000 ordinary shares of £0.005 each. Of these shares, 1,400,000 were designated BA ordinary shares of £0.005 each, 300,000 were designated as BB ordinary shares of £0.005 each with the remaining 300,000 shares being designated as BC ordinary shares of £0.005 each

On 3 September 2009, the group issued 1,030,274 of the BA ordinary shares

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 2009 Total £'000	Sharehol- ders' funds 2008 Total £'000
At 1 July	241	10,678	496	(11,168)	247	(2,479)
Loss for the year	-	-	-	(2,363)	(2,363)	(2,247)
New equity share capital subscribed	1	90	-	-	91	5,003
Equity settled share based payment charge	-	-	232	-	232	255
Share issue costs	-	-	-	-	-	(285)
At 30 June	242	10,768	728	(13,531)	(1,793)	247

COMPANY

	Called up share capital £'000	Share premium account £'000	Share option reserve £'000	Profit and loss account £'000	Sharehol- ders' funds 2009 Total £'000	Sharehol- ders' funds 2008 Total £'000
At 1 July	241	10,678	496	(4,091)	7,324	2,324
Profit for the year	-	-	-	1,248	1,248	27
New equity share capital subscribed	1	90	-	-	91	5,003
Equity settled share based payment charge	-	-	232	-	232	255
Share issue costs	-	-	-	-	-	(285)
At 30 June	242	10,768	728	(2,843)	8,895	7,324

KOBALT MUSIC GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2009

18. POST BALANCE SHEET EVENTS

In January 2010, the group issued convertible loan stock totalling £4m. Unless already converted, due to a new equity financing, sale or listing, the loan will be automatically converted into ordinary shares on 31 December 2010.