

# KOBALT MUSIC GROUP LIMITED

## Report and Consolidated Financial Statements

30 June 2012

( - 22/03/2013)

THURSDAY



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# **KOBALT MUSIC GROUP LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2012**

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# **KOBALT MUSIC GROUP LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2012**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

W B A Ahdriz  
T Bunting  
J Ekelund  
J P Fitzherbert-Brockholes  
A J Palm  
R Sanders  
J Tandberg  
T Teichman  
R Thompson

#### **SECRETARY**

J P Fitzherbert-Brockholes

#### **REGISTERED OFFICE**

4 Valentine Place  
London  
SE1 8QH

#### **BANKERS**

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

#### **AUDITOR**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge

# **KOBALT MUSIC GROUP LIMITED**

## **CHAIRMAN'S STATEMENT**

The year ended 30 June 2012 was another strong one for the group, with revenues up 27.1% and gross profits increasing by 36.3%. These results were again underpinned by very strong loyalty from our existing clients - with retention rates running at 98.1% - and new clients putting their faith in Kobalt's unique offering. During the year we added over 46,000 works to the roster, existing clients continued to provide a high proportion of the new works, but we also signed 238 new agreements.

The highest profile of our new clients was undoubtedly Paul McCartney, rock legend and one of the best-selling songwriters in history. In addition to his solo work, this signing includes other classic hits owned by his publishing company MPL, such as "Blue Suede Shoes". To be entrusted with this catalogue is a huge vote of confidence for Kobalt.

The group has had many more success stories during the year, with signings ranging from Mercury award winners Alt-J and indie legend Bjork, to pop sensations One Direction. Kobalt continues to maintain its strong share of today's chart hits, as shown by its standing in the airplay charts in the US, UK and Germany. In Quarter 2, 2012 Kobalt enjoyed a 16.7% share of US airplay, second only to Warner Chappell and well ahead of majors EMI, Sony ATV and Universal. Although airplay is not a key performance indicator for the group, it does show what a high proportion of the world's biggest-selling singles are now penned by Kobalt writers. Stand out successes this year were Taio Cruz's "Dynamite", Maroon 5 and Christina Aguilera's "Moves Like Jagger" and Katy Perry's hits "California Gurls", "ET" and "Teenage Dream".

On an operational level the year has seen new acquisition AWAL Digital Limited fully integrated into the group. Kobalt continues to invest heavily in its Label Services business with a major release from Nick Cave scheduled for February 2013, and more albums from household names in the pipeline.

We continue to see exciting growth, with run rate of revenue around £120m at the beginning of 2013. The core publishing business now is profitable at an EBITDA level and the capital raised in July 2012 should enable the group to invest fully in the development of its businesses. Furthermore, Kobalt is also now able to access \$100m of capital for the benefit of current and potential publishing clients through the investment structure established in 2011.

Kobalt's continuing success shows that we are continuing to provide a cutting-edge service to our clients and to build our reputation as an innovative and forward-looking partner for artists and rights holders. This reputation depends in large part on the dedication of our staff and directors, and so on behalf of the board I would like to thank them for all their efforts. We look forward to building on this year's success in the years to come.

**Tim Bunting**

**Chairman**

# KOBALT MUSIC GROUP LIMITED

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2012

### BUSINESS REVIEW AND PRINCIPAL ACTIVITY

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

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

As shown in the group's profit and loss account on page 8, the group's sales have increased by 27.1% over the prior year while gross margin has increased by 0.7 percentage points. Gross profit increased in absolute terms by £2,408k. Total administrative expenses have increased by 47.2 percentage points to £11,898k. The loss after tax has increased to £3,738k as opposed to the previous year's £1,936k. The group's on-going losses are the result of a conscious decision to prioritise growth over profitability, the results are in line with the group's long-term forecasts.

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

	2012	2011
Increase in turnover	27.1%	25.6%
Gross profit	£9,046k	£6,638k
Gross profit percentage	11.6%	10.9%
Operating loss	£2,852k	£1,444k

The group also uses certain non-financial performance indicators, one of which is the number of employees. The increase in employee numbers during the year (from 89 to 123) is the result of the group's rapid growth in activity.

The balance sheet on page 9 of the financial statements shows that the group's cash position remains healthy. The group is financed by working capital, loans and equity. There is also considerable headroom available from the group's loan facility should it be required.

### PRINCIPAL RISKS AND UNCERTAINTIES

The risks and uncertainties facing the group are detailed below.

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

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

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

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

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

# KOBALT MUSIC GROUP LIMITED

## DIRECTORS' REPORT

### PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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

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

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

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

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

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

### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

#### *Currency risk*

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

#### *Credit risk*

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

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

#### *Liquidity risk*

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

#### *Interest rate risk*

Kobalt is financed by short and medium term borrowing and is exposed to adverse movements in interest rates. The directors continually monitor this exposure and manage the risk as far as is possible.

### CHARITABLE DONATIONS

During the year the Group made charitable donations of £1k (2011 - £1k)

# KOBALT MUSIC GROUP LIMITED

## DIRECTORS' REPORT

### DIRECTORS

The directors who served during the year, unless otherwise stated, were as follows

W B A Ahdriz  
T Bunting  
J Ekelund  
J P Fitzherbert-Brockholes  
A J Palm  
R Sanders (appointed 13 November 2012)  
J Tandberg (appointed 15 November 2012)  
T Teichman  
R Thompson (appointed 7 March 2012)

### DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

### AUDITOR

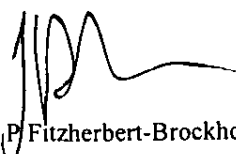
Each of the persons who is a director at the date of approval of this annual report confirms that

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

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

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting

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



J.P. Fitzherbert-Brockholes  
Secretary

22 March 2013

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

We have audited the financial statements of Kobalt Music Group Limited for the year ended 30 June 2012 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 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2012 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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



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

**Matters on which we are required to report by exception**

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

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

*Al Swarbrick*

**Andrew Swarbrick BA FCA (Senior Statutory Auditor)**

**For and on behalf of Deloitte LLP**

Chartered Accountants and Statutory Auditor

Cambridge, United Kingdom

*25 March 2013*

# KOBALT MUSIC GROUP LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 June 2012

	Note	Acquired operations 2012 £'000	Continuing operations 2012 £'000	Total 2012 £'000	2011 £'000
<b>TURNOVER</b>	2	3,264	74,457	77,721	61,149
Cost of sales		<u>(2,745)</u>	<u>(65,930)</u>	<u>(68,675)</u>	<u>(54,511)</u>
Gross profit		519	8,527	9,046	6,638
Administrative expenses		<u>(1,427)</u>	<u>(10,471)</u>	<u>(11,898)</u>	<u>(8,082)</u>
<b>OPERATING LOSS</b>		<u>(908)</u>	<u>(1,944)</u>	<u>(2,852)</u>	<u>(1,444)</u>
Interest receivable and similar income	5			9	1
Interest payable and similar charges	6			<u>(237)</u>	<u>(62)</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>				<u>(3,080)</u>	<u>(1,505)</u>
Tax on loss on ordinary activities	7			<u>(658)</u>	<u>(431)</u>
<b>LOSS FOR THE FINANCIAL YEAR</b>	18			<u><u>(3,738)</u></u>	<u><u>(1,936)</u></u>

Unless stated 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 2012

	Note	2012 £'000	2011 £'000
<b>FIXED ASSETS</b>			
Intangible assets	10	1,240	-
Tangible assets	11	2,001	1,400
Investments	12	946	-
		<u>4,187</u>	<u>1,400</u>
<b>CURRENT ASSETS</b>			
Debtors	14	26,022	25,163
Cash at bank and in hand		5,698	10,563
		<u>31,720</u>	<u>35,726</u>
<b>CREDITORS: amounts falling due within one year</b>	15	<u>(40,688)</u>	<u>(38,151)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(8,968)</u>	<u>(2,425)</u>
<b>NET LIABILITIES</b>		<u>(4,781)</u>	<u>(1,025)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	288	286
Share premium account	18	15,202	15,156
Share option reserve	18	993	889
Other revaluation reserve	18	(170)	-
Profit and loss account	18	(21,094)	(17,356)
<b>SHAREHOLDERS' DEFICIT</b>	18	<u>(4,781)</u>	<u>(1,025)</u>

The financial statements of Kobalt Music Group Limited, registered number 4018752, were approved by the Board of Directors and authorised for issue on 22 MARCH 2013.

Signed on behalf of the Board of Directors

  
J. P. Fitzherbert-Brockholes  
Director

# KOBALT MUSIC GROUP LIMITED


## BALANCE SHEET

30 June 2012

	Note	2012 £'000	2011 £'000
<b>FIXED ASSETS</b>			
Tangible assets	11	1,805	1,204
Investments	12	2,775	135
		<u>4,580</u>	<u>1,339</u>
<b>CURRENT ASSETS</b>			
Debtors	14	34,244	28,318
Cash at bank and in hand		-	338
		<u>34,244</u>	<u>28,656</u>
<b>CREDITORS: amounts falling due within one year</b>	15	<u>(23,304)</u>	<u>(15,193)</u>
<b>NET CURRENT ASSETS</b>		<u>10,940</u>	<u>13,463</u>
<b>NET ASSETS</b>		<u>15,520</u>	<u>14,802</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	288	286
Share premium account	18	15,202	15,156
Share option reserve	18	993	889
Profit and loss account	18	(963)	(1,529)
<b>SHAREHOLDERS' FUNDS</b>	18	<u>15,520</u>	<u>14,802</u>

The financial statements of Kobalt Music Group Limited, registered number 4018752, were approved by the Board of Directors and authorised for issue on 22 MARCH 2013

Signed on behalf of the Board of Directors

  
 J. H. Fitzherbert-Brockholes  
 Director

# KOBALT MUSIC GROUP LIMITED

## CONSOLIDATED CASH FLOW STATEMENT Year ended 30 June 2012

	Note	2012 £'000	2011 £'000
Net cash inflow (outflow) from operating activities	1	<u>1,867</u>	<u>(1,273)</u>
<b>Returns on investments and servicing of finance</b>			
Interest received		9	1
Interest paid		<u>(237)</u>	<u>(62)</u>
<b>Net cash outflow from returns on investments and servicing of finance</b>		<u>(228)</u>	<u>(61)</u>
<b>Taxation</b>		<u>(680)</u>	<u>(431)</u>
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(620)	(318)
Payments to acquire intangible fixed assets		<u>(87)</u>	<u>-</u>
<b>Net cash outflow from capital expenditure and financial investment</b>		<u>(707)</u>	<u>(318)</u>
<b>Acquisitions</b>			
Payment to acquire subsidiary undertaking		(1,198)	-
Cash acquired with subsidiary undertaking		979	-
Payments to acquire other investment holdings		<u>(946)</u>	<u>-</u>
<b>Net cash outflow from acquisitions</b>		<u>(1,165)</u>	<u>-</u>
<b>Net cash outflow before financing</b>		<u>(913)</u>	<u>(2,083)</u>
<b>Financing</b>			
Bank loans (repaid)/received		(4,000)	4,000
Share capital issued		48	90
<b>Net cash (outflow) inflow from financing</b>		<u>(3,952)</u>	<u>4,090</u>
<b>(Decrease) increase in cash</b>	2/3	<u><u>(4,865)</u></u>	<u><u>2,007</u></u>

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2012

### 1. RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	2012 £'000	2011 £'000
Operating loss	(2,852)	(1,444)
Depreciation of tangible assets	697	407
Amortisation of intangible assets	88	-
Capitalised labour costs	(647)	(392)
Increase in debtors	(486)	(10,682)
Increase in creditors	5,133	10,823
Share option payment charge	104	15
Non cash movements due to foreign exchange differences	(170)	-
<b>Net cash inflow (outflow) from operating activities</b>	<u>1,867</u>	<u>(1,273)</u>

### 2. ANALYSIS OF NET FUNDS

	At 1 July 2011 £'000	Cash flow £'000	At 30 June 2012 £'000
Cash at bank and in hand	10,563	(4,865)	5,698
Bank loan	(4,000)	4,000	-
<b>Net funds</b>	<u>6,563</u>	<u>(865)</u>	<u>5,698</u>

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

	2012 £'000	2011 £'000
(Decrease) increase in cash in the year	(4,865)	2,007
Cash inflow from change in debt and lease financing	4,000	-
<b>Movement in net funds in the year</b>	<u>(865)</u>	<u>2,007</u>
Opening net funds	6,563	4,556
<b>Closing net funds</b>	<u>5,698</u>	<u>6,563</u>

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 1. ACCOUNTING POLICIES

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

#### **Basis of accounting**

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

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

#### **Going concern**

As at 30 June 2012 the group held substantial cash reserves of £5.7m and this position was further strengthened post year end with the issue of £6.7m of preference shares for cash.

Should it be required, the group still has in place an £8m bank borrowing facility, which is available until January 2014. The directors are not aware of any reason why this facility would not be renewed when it expires.

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.

The directors have prepared projected cash flow information for the period ending 30 June 2013 and beyond. These projections anticipate that the group will be able to operate from the cash generated from the issue of series A preferred shares in July 2013, together with the agreed facility already in place. No further capital injections to the group are expected or considered necessary.

They have examined the results of sensitivity analyses on their forecasts to assess the effect on cash given certain downside scenarios.

Based on the above, the directors have concluded that the group will continue in operational existence for the foreseeable future even if there were to be 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 12). All entities have an accounting year end of 30 June.

#### **Intangible assets - goodwill**

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. Provision is made for any impairment.

#### **Intangible assets - publishing asset**

The publishing asset relates to payments made to acquire the right to collect royalties on future compositions by a certain client. The carrying value of the publishing asset is reviewed for impairment and adjusted, if appropriate, if events or changes in circumstances indicate the carrying value may not be recoverable. The asset will amortise with the collection of royalties on future compositions.

#### **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 2012

### 1. ACCOUNTING POLICIES (continued)

#### Convertible loan notes

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

#### Depreciation

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

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

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

#### Taxation

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

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

#### Pension costs

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

#### Foreign currencies

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against group equity investments in foreign currency enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

#### Leasing and hire purchase agreements

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.



# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 1 ACCOUNTING POLICIES (continued)

#### Royalty advances

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

#### Share-based payment

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

The group has issued equity-settled share-based payments to certain employees and suppliers. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed immediately if there is no vesting period or on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

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

#### Financial instruments

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

### 2. TURNOVER

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

An analysis of turnover by geographical market is given below.

	2012 £'000	2011 £'000
United Kingdom	11,463	8,685
Rest of Europe	18,505	16,760
North America	37,055	29,490
Rest of World	10,698	6,214
	<u>77,721</u>	<u>61,149</u>

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2012 £'000	2011 £'000
<b>Directors' remuneration</b>		
Directors' emoluments	1,184	766
	<u>696</u>	<u>480</u>
<b>Emoluments of highest paid director</b>	No	No
<b>Average number of persons employed (including directors) by the group during the year was:</b>		
Management	14	9
Copyright administration	33	27
Other administration	40	24
Client services	6	5
Synchronisation and creative	30	24
	<u>123</u>	<u>89</u>
	<b>£'000</b>	<b>£'000</b>
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	6,087	4,462
Social security costs	651	475
Share-based payment charges	104	15
	<u>6,842</u>	<u>4,952</u>

### 4 OPERATING LOSS

	2012 £'000	2011 £'000
<b>Operating loss is after charging (crediting):</b>		
Depreciation of fixed assets		
Owned assets	697	407
Amortisation of intangible assets	88	-
Operating lease rentals		
Land and buildings	307	304
Plant and machinery	13	13
Foreign exchange losses (gains)	251	(29)
The analysis of auditor's remuneration is as follows		
Fees payable to the company's auditor for the audit of the group's annual accounts	85	65
Other services	123	81
	<u>85</u>	<u>81</u>

### 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £'000	2011 £'000
Bank interest receivable	9	1
	<u>9</u>	<u>1</u>

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £'000	2011 £'000
Bank loans and overdraft	237	55
Convertible loan interest	-	7
	<u>237</u>	<u>62</u>

### 7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2012 £'000	2011 £'000
<b>Current tax</b>		
United Kingdom corporation tax based on the result for the year at 25.5% (2011 - 27.5%)	-	-
Double tax relief		
Non-reclaimable withholding tax on royalty payments received	658	431
Total current tax	<u>658</u>	<u>431</u>

The standard rate of tax for the year, based on the United Kingdom standard rate of corporation tax is 25.5% (2011 - 27.5%). 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

	2012 £'000	2011 £'000
Loss on ordinary activities before tax	<u>(3,080)</u>	<u>(1,505)</u>
Tax on loss on ordinary activities at standard rate	(785)	(414)
Factors affecting charge for the year		
Expenses not deductible for tax purposes	208	37
Depreciation in excess of capital allowances	137	94
Tax losses carried forward	720	315
Net non-reclaimable withholding tax on royalty payments received	658	431
Losses utilised	<u>(280)</u>	<u>(32)</u>
Total actual amount of current tax	<u>658</u>	<u>431</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 £3.3 million (2011 - £1.9 million). Consequently, potential deferred taxation assets arise in these companies which have not been recognised in the financial statements due to the uncertainty of future profits against which these losses may be offset.

In March 2012, the UK Government announced a reduction in the standard rate of UK corporation tax to 24% effective 1 April 2012 and to 23% effective 1 April 2013. These rate reductions became substantively enacted in March 2012 and July 2012 respectively.

In December 2012, the UK Government also proposed to further reduce the standard rate of UK corporation tax to 21% effective 1 April 2014, but this change has not been substantively enacted.

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

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 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 up 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

	2012		2011	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of year	1,035,514	2.92	1,279,516	3.40
Granted during the year	14,540	9.86	7,052	6.00
Forfeited during the year	(61,317)	4.09	(200,900)	6.00
Exercised during the year	(12,528)	3.75	(30,648)	2.70
Expired during the year	-	n/a	(19,506)	2.75
	<u>976,209</u>		<u>1,035,514</u>	
Outstanding at the end of the year	976,209		1,035,514	
	<u>967,409</u>		<u>1,028,150</u>	
Exercisable at the end of the year	967,409		1,028,150	

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

Year ended 30 June	2012	2011
Weighted average share price	£5.59	£5.13
Weighted average exercise price	£9.86	£6.00
Expected volatility	25%	25%
Weighted average expected life	5.0 years	5.0 years
Weighted average risk-free rate	1.5%	2.6%
Expected dividend yield	-	-

#### Other equity-settled share-based payments

The company provides incentives in the form of BA, BB and BC Ordinary shares sold to senior employees of the group. In the year ended 30 June 2012 a total 52,080 BB Shares and 350,341 BC Shares were sold for £0.005 each to various employees (2011 - nil). The fair value of these share transactions were assessed as if they were share options by using the Black-Scholes pricing model.

The inputs into the Black-Scholes pricing model for shares sold within the relevant period are as follows

Year ended 30 June	2012	2011
Weighted average share price	£5.33	n/a
Weighted average exercise price	£9.68	n/a
Expected volatility	25%	n/a
Weighted average expected life	4.0 years	n/a
Weighted average risk-free rate	0.7%	n/a
Expected dividend yield	-	n/a
Weighted average fair value	0.23	n/a

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 8 SHARE BASED PAYMENTS (continued)

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 £104k related to equity-settled share-based payment transactions in the year ended 30 June 2012 (2011 - £15k)

### 9 PROFIT ATTRIBUTABLE TO THE COMPANY

The profit for the financial year dealt with in the financial statements of the parent company was £566k (2011 - £768k) 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. INTANGIBLE FIXED ASSETS

<b>GROUP</b>	<b>Goodwill on consolidation £'000</b>	<b>Publishing asset £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 July 2011	-	-	-
Additions	1,241	87	1,328
At 30 June 2012	1,241	87	1,328
<b>Amortisation</b>			
At 1 July 2011	-	-	-
Provided during the year	72	16	88
At 30 June 2012	72	16	88
<b>Net book value</b>			
At 30 June 2012	1,169	71	1,240
At 30 June 2011	-	-	-

The publishing asset addition concerns a payment made by the group in October 2011 to acquire the right to collect royalties on the future compositions of a certain client

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 11. TANGIBLE FIXED ASSETS

#### GROUP

	Office equipment and fixtures £'000	Software £'000	Computer equipment £'000	Total £'000
<b>Cost</b>				
At 1 July 2011	579	2,185	616	3,380
Additions	271	820	207	1,298
At 30 June 2012	<u>850</u>	<u>3,005</u>	<u>823</u>	<u>4,678</u>
<b>Depreciation</b>				
At 1 July 2011	301	1,356	323	1,980
Provided during the year	116	385	196	697
At 30 June 2012	<u>417</u>	<u>1,741</u>	<u>519</u>	<u>2,677</u>
<b>Net book value</b>				
At 30 June 2012	<u>433</u>	<u>1,264</u>	<u>304</u>	<u>2,001</u>
At 30 June 2011	<u>278</u>	<u>829</u>	<u>293</u>	<u>1,400</u>

#### COMPANY

	Office equipment and fixtures £'000	Software £'000	Computer equipment £'000	Total £'000
<b>Cost</b>				
At 1 July 2011	268	2,184	470	2,922
Additions	208	813	99	1,120
At 30 June 2012	<u>476</u>	<u>2,997</u>	<u>569</u>	<u>4,042</u>
<b>Depreciation</b>				
At 1 July 2011	133	1,356	229	1,718
Provided during the year	40	386	93	519
At 30 June 2012	<u>173</u>	<u>1,742</u>	<u>322</u>	<u>2,237</u>
<b>Net book value</b>				
At 30 June 2012	<u>303</u>	<u>1,255</u>	<u>247</u>	<u>1,805</u>
At 30 June 2011	<u>135</u>	<u>828</u>	<u>241</u>	<u>1,204</u>

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 12. INVESTMENTS

<b>GROUP</b>	<b>Group investments £'000</b>
<b>Cost</b>	
At 1 July 2011	-
Additions	946
At 30 June 2012	<u>946</u>

<b>COMPANY</b>	<b>Investment in subsidiary undertakings £'000</b>
<b>Cost</b>	
At 1 July 2011	135
Additions	2,640
At 30 June 2012	<u>2,775</u>

During the year, the company and group acquired a 8% holding in Kobalt Music Royalties SCA SICAV-SIF, an investment fund based in Luxembourg for a consideration of £946k

On 27 July 2011 the company invested a further £496k in its 100% owned subsidiary Kobalt Capital Limited

On 9 December 2011 the company acquired 100% of the share capital of AWAL Digital Limited (formerly AWAL (UK) Limited) The fair value of the total consideration was £1,198k

The company's wholly owned subsidiaries are as listed on the following page, with principal activities as noted below

The principal activity of Kobalt America Holdings, Inc is that of a holding company for the US subsidiaries

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

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

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

The principal activity of all other group entities is music publishing, except for Kollektor Limited which is dormant

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 12. INVESTMENTS (continued)

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>			
AWAL Digital Limited (formerly AWAL (UK) Limited)	Ordinary	100%	
KMG Germany GmbH	Ordinary	100%	Germany
Kobalt America Holdings, Inc	Ordinary	100%	USA
Kobalt Capital Limited	Ordinary	100%	
Kobalt Capital Suisse Sarl	Ordinary	100%	Switzerland
Kobalt Digital Licensing Limited	Ordinary	100%	
Kobalt Label Services America, Inc (formerly Kobalt Digital Services America Inc)	Ordinary	100%	USA
Kobalt Label Services Limited (formerly Kobalt Digital Services Limited)	Ordinary	100%	
Kobalt Masters Licensing America Inc (formerly Kobalt Digital Licensing America, Inc)	Ordinary	100%	USA
Kobalt Music Administration Limited	Ordinary	100%	
Kobalt Music Publishing (Italia) Limited	Ordinary	100%	
Kobalt Music Publishing America Inc	Ordinary	100%	USA
Kobalt Music Publishing Australia Pty Limited	Ordinary	100%	Australia
Kobalt Music Publishing Limited	Ordinary	100%	
Kobalt Music Royalties Sarl	Ordinary	100%	Luxembourg
Kobalt Music Scandinavia AB	Ordinary	100%	Sweden
Kobalt Music Services America Inc	Ordinary	100%	USA
Kobalt Music Services Australia Pty Limited	Ordinary	100%	Australia
Kobalt Music Services Limited	Ordinary	100%	
Kobalt Neighbouring Rights Limited	Ordinary	100%	
Kojam Music Limited	Ordinary	100%	
Kollector Limited	Ordinary	100%	



# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 13. ACQUISITION OF SUBSIDIARY UNDERTAKING

On 9 December 2011 the group acquired 100% of the issued share capital of AWAL Digital Limited (formerly AWAL (UK) Limited) for consideration of £1,153k in cash. The fair value of the total consideration was £1,198k.

Acquisitions are accounted for under the acquisition method.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the group.

	Book value £'000	Revalua- tion £'000	Fair value to Group £'000
<b>Fixed assets</b>			
Tangible	31	-	31
<b>Current assets</b>			
Debtors	367	-	367
Cash	979	-	979
<b>Total assets</b>	<u>1,377</u>	<u>-</u>	<u>1,377</u>
<b>Creditors</b>			
Trade creditors	30	-	30
Accruals	1,351	-	1,351
Other creditors	19	-	19
	<u>1,400</u>	<u>-</u>	<u>1,400</u>
<b>Provisions</b>			
Taxation	20	-	20
<b>Total liabilities</b>	<u>1,420</u>	<u>-</u>	<u>1,420</u>
<b>Net liabilities</b>	<u>(43)</u>	<u>-</u>	<u>(43)</u>
Goodwill			1,196
Capitalised legal fees			45
			<u>1,241</u>
			<u>1,198</u>
<b>Satisfied by</b>			
Cash for acquisition of subsidiary			1,153
Cash payment for legal fees			45
			<u>1,198</u>

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 13. ACQUISITION OF SUBSIDIARY UNDERTAKING (continued)

Net cash outflows in respect of the acquisition comprised

	£'000
Cash consideration	1,153
Cash at bank and in hand acquired	(979)
	<u>174</u>

AWAL Digital Limited (formerly AWAL (UK) Limited) made a loss after taxation of £1,165k of which £244k arose in the period from 1 July 2011 to 8 December 2011. The summarised profit and loss account for the period from 1 July 2011 to 8 December 2011, shown on the basis of the accounting policies of AWAL Digital Limited (formerly AWAL (UK) Limited) prior to the acquisition, are as follows

	£'000
<b>Profit and loss account</b>	
Turnover	1,234
Cost of sales	(1,216)
Gross profit	18
Other operating expenses	(252)
<b>Operating loss, being loss on ordinary activities before taxation</b>	(234)
Tax on loss on ordinary activities	(10)
<b>Loss for the financial period</b>	<u>(244)</u>

### 14. DEBTORS

	GROUP		COMPANY	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Amounts owed by group undertakings	-	-	33,471	27,892
Other debtors	822	493	456	203
Prepayments	972	2,596	317	223
Accrued income	24,228	22,074	-	-
	<u>26,022</u>	<u>25,163</u>	<u>34,244</u>	<u>28,318</u>

Other debtors includes £359k (2010 - £213k) relating to rent deposits on leases that are due to expire after more than one year from the balance sheet date

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

All other debtors are due within one year

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		COMPANY	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Bank overdraft	-	-	5,320	-
Bank loan	-	4,000	-	4,000
Amounts owed to group undertakings	-	-	17,172	10,491
Trade creditors	410	163	149	85
Accruals and deferred income	38,477	33,590	467	417
Other taxes and social security costs	237	194	114	179
Other creditors	1,564	204	82	21
	<u>40,688</u>	<u>38,151</u>	<u>23,304</u>	<u>15,193</u>

The bank loan was repaid on 1 July 2011 with interest charged at 2.8%

### 16. OPERATING LEASE COMMITMENTS

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

	Plant and machinery		Land and building	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Operating leases which expire				
Within one year	1	5	16	15
Between one and five years	7	7	124	124
After more than five years	-	-	248	120
	<u>8</u>	<u>12</u>	<u>274</u>	<u>259</u>

### 17 CALLED UP SHARE CAPITAL

	2012 £'000	2011 £'000
<b>Called up, allotted and fully paid</b>		
5,630,477 (2011 - 5,617,949) ordinary shares of £0.05 each	282	281
1,030,274 (2011 - 1,030,274) BA ordinary shares of £0.005 each	5	5
52,080 (2011 - nil) BB ordinary shares of £0.005 each	-	-
280,341 (2011 - nil) BC ordinary shares of £0.005 each	1	-
	<u>288</u>	<u>286</u>

In October 2011, 52,080 BB ordinary shares of £0.005 were issued at par

In December 2011, 280,341 BC ordinary shares of £0.005 were issued at par

In February 2012, 2,520 ordinary shares of £0.05 each were issued for consideration of £9k as a result of the exercise of share options

In March 2012, 10,008 ordinary shares of £0.05 each were issued for consideration of £37k as a result of the exercise of share options

The BA, BB and BC ordinary shares have a voting right to the ratio of 20:1 ordinary share. These shares have the right to participate in the distribution of dividends payable and capital distributions. Such distributions are to be reduced by the following threshold values per share, BA ordinary shares - £6, BB ordinary share - £7.50 and BC ordinary shares £10

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2012

### 18. 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	Other revaluation reserve £'000	Profit and loss account £'000	Sharehol- ders' deficit 2012 Total £'000	Sharehol- ders' deficit 2011 Total £'000
At 1 July	286	15,156	889	-	(17,356)	(1,025)	(3,250)
Loss for the year	-	-	-	-	(3,738)	(3,738)	(1,936)
New equity share capital subscribed	2	46	-	-	-	48	4,146
Equity settled share based payment charge	-	-	104	-	-	104	15
Currency translation differences	-	-	-	(170)	-	(170)	-
At 30 June	288	15,202	993	(170)	(21,094)	(4,781)	(1,025)

#### COMPANY

	Called up share capital £'000	Share premium account £'000	Share option reserve £'000	Profit and loss account £'000	Sharehol- ders' funds 2012 Total £'000	Sharehol- ders' funds 2011 Total £'000
At 1 July	286	15,156	889	(1,529)	14,802	9,873
Profit for the year	-	-	-	566	566	768
New equity share capital subscribed	2	46	-	-	48	4,146
Equity settled share based payment charge	-	-	104	-	104	15
At 30 June	288	15,202	993	(963)	15,520	14,802

#### Share option reserve

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

# **KOBALT MUSIC GROUP LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2012**

### **19. FINANCIAL INSTRUMENTS**

In prior years, trading activities included the payment and receipt of royalties in Japanese Yen denomination which created exposure to foreign exchange rates. This currency risk was managed by entering into forward foreign exchange barrier options. As at 30 June 2012 there were no options in place (2011 - fair value of these options were unrecognised losses of £24k)

### **20. POST BALANCE SHEET EVENTS**

In July 2012, the group issued 561,143 series A preferred shares for consideration of £6,734k