04018752

Kobalt Music Group Limited

Report and Financial Statements

30 June 2006

Registered No 4018752

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

Secretary
J P Fitzherbert-Brockholes

Auditors
Ernst & Young LLP
1 More London Place
London
SE1 2AF

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

Registered office
4 Valentine Place
London
SE1 8QH

Directors' report

The directors present their report and financial statements for the year ended 30 June 2006

Results and dividends

The loss for the year after taxation amounted to £383,000 (2005 - loss of £573,000) The directors do not recommend the payment of any dividends

The company issued shares during the year as described in note 17 to the financial statements

Principal activities and review of the business

The principal activities of the company relate to the provision of administration services for subsidiary undertakings involved in music publishing

The company performed in line with directors' expectations during the year ended 30 June 2006

Future developments

The directors aim to maintain management policies which have resulted in the company's substantial growth in recent years They consider that 2007 will show further significant growth in sales

Directors and their interests

The directors during the year, and their interests in the shares of the company, were as follows

	At 30 June 2006 *Ordinary shares*	*At 1 July 2005* *Ordinary shares*
W B A Ahdritz	204,634	100
J Ekelund	184,424	200,000
Newmedia Spark Directors Ltd	–	–
A J Palm	–	–
J P Fitzherbert-Brockholes	750	750
C Broadhurst	44,000	44,000

Note as at 1 July 2005, W B A Ahdritz had a minority interest in Sparkidea Holding SA which held 1,285,250 shares

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

Directors' report

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1 Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

By order of the board

Secretary

5 July 2007

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Chairman's statement

2005-6 was another dynamic year for Kobalt Music Group Revenue for the group as a whole was up 190%, while net publisher's share (NPS) increased by 100%

We have added some big names to the roster artists such as Tom Jones and Richard Ashcroft, bands such as Interpol and The Editors, writers including Max Martin and Dr Luke, and publishers such as Evergreen and Ten Ten

After four years creating world leading technology, finally we are reaping the rewards of a system far ahead of any rivals, all created in house in London and Sweden

The year has also seen the establishment of our US office in Los Angeles, another step in the group's strategy to exploit its competitive advantage by investing in sales The USA is the world's largest market for music in general and for Kobalt's core business in particular There has already been a significant increase in US domestic sales since the office was set up

The directors expect that the group's strong growth in recent years will continue in 2006-7

Tom Teichman
Chairman

Independent auditors' report

to the members of Kobalt Music Group Limited

We have audited the company's financial statements for the year ended 30 June 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 21 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the directors' report and chairman's statement and consider the implications for our report if we become aware of any apparent misstatements within them

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditors' report

to the members of Kobalt Music Group Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst + Young LLP

Ernst & Young LLP

Registered auditor

London

6 July 2007

Profit and loss account

for the year ended 30 June 2006

	Notes	2006 £000	2005 £000
Turnover	3	1,629	1,018
Administrative expenses		(2,004)	(1,546)
Operating loss	4	(375)	(528)
Interest receivable and similar income	7	170	1
Interest payable and similar charges	8	(105)	(46)
		65	(45)
Loss on ordinary activities before taxation		(310)	(573)
Tax on loss on ordinary activities	9	(73)	–
Loss for the financial year	18	(383)	(573)

Statement of total recognised gains and losses

The company has no recognised gains and losses in either year other than those disclosed in the profit and loss account above

Balance sheet

at 30 June 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Intangible assets	10	332	224
Tangible assets	11	181	58
Investments	12	95	95
		608	377
Current assets			
Debtors	13	2,271	1,429
Cash at bank and in hand		21	50
		2,292	1,479
Creditors amounts falling due within one year	14	(653)	(458)
Net current assets		1,639	1,021
Total assets less current liabilities		2,247	1,398
Creditors. amounts falling due after more than one year, including convertible debt	15	(8)	(543)
		2,239	855
Capital and reserves			
Called up share capital	17	194	155
Share premium account	18	5,811	4,083
Profit and loss account	18	(3,766)	(3,383)
Shareholders' funds	18	2,239	855

Director

5 July 2007

Notes to the financial statements

at 30 June 2006

1. Fundamental Accounting concept

The financial statements have been prepared on a going concern basis on the assumption that the company will continue to generate sufficient profits and cash to enable it to meet its liabilities as and when they fall due Despite the further equity investment received during the year, it is possible that the company could become reliant on the on-going repayment of intra-group balances as detailed in Note 20

Whilst there can be no certainty concerning the future performance of these subsidiaries, the directors are confident that these subsidiaries will be able to make any repayments to the Company should they become necessary

In deciding whether the going concern basis is appropriate, the directors have also considered the cash flow position of the company and of the group going forward In the judgement of the directors, the company and the group have adequate existing facilities in place to meet their cash needs and it will not be necessary to obtain further finance for this purpose

The directors therefore believe that the going concern basis is appropriate in preparing the financial statements However, should this not be the case, adjustments would have to be made to reduce the value of the assets to their realisable amount, and to provide for any further liabilities which might arise

2. Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention

Group financial statements

The financial statements present information about the company as an individual undertaking and not about its group The company and its subsidiary undertakings comprise a small group The company has therefore taken advantage of the exemptions provided in section 248 of the Companies Act 1985 not to prepare group financial statements

Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement on the grounds that the company is small

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

Computer equipment	-	25% - 50% per annum
Office equipment		33% per annum
Fixtures and fittings		10% 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

Notes to the financial statements

at 30 June 2006

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

2. Accounting policies (continued)

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

Intangible fixed assets

Intangible fixed assets are initially recorded at cost Software is amortised at a rate calculated to write off the cost over its expected useful life, as follows

Software - 16 66% per annum

The carrying value of software is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Pension costs

The company operates a defined contribution stakeholder pension scheme The company does not make any contributions to this scheme and so no cost to the company is involved

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves

Leasing and hire purchase agreements

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

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

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

Notes to the financial statements

at 30 June 2006

3. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties in respect of the company's continuing activity as stated in the directors' report

An analysis of turnover by geographical market is given below

	2006	*2005*
	£000	*£000*
United Kingdom	1,479	1,000
Rest of Europe	19	18
Rest of World	131	–
	1,629	1,018

4. Operating loss

This is stated after charging

		2006	*2005*
		£000	*£000*
Auditors' remuneration	- audit services	27	22
	- non-audit services	6	5
		33	27
Depreciation of fixed assets	- owned assets	25	7
	- leased assets	18	13
Amortisation		119	64
Operating lease rentals	- land and buildings	81	93
Foreign exchange losses		26	4

5. Directors' remuneration

	2006	*2005*
	£000	*£000*
Total directors' emoluments	356	115

	2006	*2005*
	£000	*£000*
Emoluments of highest paid director	200	112

Notes to the financial statements

at 30 June 2006

6. Staff costs

	2006	*2005*
	£000	*£000*
Wages and salaries	837	579
Social security costs	121	68
	958	647

The average weekly number of employees during the year was as follows

	2006	*2005*
	No	*No*
Administration	21	15

7. Interest receivable

	2006	*2005*
	£000	*£000*
Intra-group loan interest	166	–
Other interest receivable	4	1
	170	1

8. Interest payable

	2006	*2005*
	£000	*£000*
Bank loans and overdraft	–	1
Finance lease interest	5	15
Intra-group loan interest	89	–
Other interest payable	11	30
	105	46

9. Tax

(a) Tax on loss on ordinary activities

The tax charge is made up as follows

	2006	*2005*
	£000	*£000*
Current tax		
UK corporation tax on the loss for the year	–	–
Revision of prior year research and development tax credit	73	–
Total current tax (note 9(b))	73	–

Notes to the financial statements
at 30 June 2006

9 Tax (continued)

(b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2005 - 30%) The differences are explained below

	2006 *£000*	*2005* *£000*
Loss on ordinary activities before tax	(310)	(573)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 - 30%)	(93)	(172)
Effects of		
Expenses not deductible for tax purposes	19	3
Capital allowances in (advance) / arrears of depreciation	(8)	8
Other timing differences	8	–
Tax losses carried forward	74	161
Prior year adjustment	73	–
Current tax for the year (note 9(a))	73	–

(c) Deferred tax

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

	2006 *£000*	*2005* *£000*
Capital allowances in (advance) / arrears of depreciation	(2)	4
Other timing differences	8	–
Tax losses available	720	554
	726	558

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

Notes to the financial statements

at 30 June 2006

10. Intangible fixed assets

	Software £000
Cost	
At 1 July 2005	448
Additions	227
At 30 June 2006	675
Amortisation	
At 1 July 2005	224
Provided during the year	119
At 30 June 2006	343
Net book value	
At 30 June 2006	332
At 1 July 2005	224

11. Tangible fixed assets

	Office Equipment and Fixtures £000	Owned computer equipment £000	Leased computer equipment £000	Total £000
Cost				
At 1 July 2005	8	39	55	102
Additions	134	35	3	172
Disposals	(6)	(19)	–	(25)
At 30 June 2006	136	55	58	249
Depreciation				
At 1 July 2005	3	26	15	44
Provided during the year	12	13	18	43
Disposals	(2)	(17)	–	(19)
At 30 June 2006	13	22	33	68
Net book value				
At 30 June 2006	123	33	25	181
At 1 July 2005	5	13	40	58

Notes to the financial statements

at 30 June 2006

12. Investments

	Investment in subsidiary undertakings £000
Cost	
At 1 July 2005 and June 30 2006	95

The company holds at least 20% of the share capital of the following companies

Company	*Class of shares*	*Proportion of voting rights and shares held*	*Country of registration or incorporation (if not England and Wales)*
Subsidiary undertakings			
Diesel 2 Publishing and Management AB	Ordinary	100%	Sweden
Kojam Music AB*	Ordinary	100%	Sweden
Monumental Songs AB**	Ordinary	100%	Sweden
Kobalt Music Publishing Limited	Ordinary	100%	
Kobalt Music Services Limited	Ordinary	100%	
Kojam Music Limited	Ordinary	100%	
Kobalt Music Administration Limited	Ordinary	50%	
Kollector Limited	Ordinary	100%	
Kobalt Music Publishing (Italia) Limited	Ordinary	100%	
Kobalt Music Publishing America Inc	Ordinary	100%	USA
Kobalt Music Services America Inc	Ordinary	100%	USA
Joint ventures			
Sanctuary Kobalt (UB40) Limited	Ordinary	50%	
Sanctuary Kobalt (WAR) Limited	Ordinary	50%	

* Held by Kojam Music Limited
** Held by Diesel 2 Publishing and Management Limited

Notes to the financial statements

at 30 June 2006

12. Investments (continued)

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows

		Aggregate capital and reserves	*Profit/(loss) for the year*
		£000	*£000*
Diesel 2 Publishing and Management AB		173	39
Kojam Music AB*		9	(2)
Monumental Songs AB**		8	(2)
Kobalt Music Publishing Limited		144	122
Kobalt Music Services Limited		(2,786)	(906)
Kojam Music Limited		(396)	(26)
Kobalt Music Administration Limited		(1)	85
Kollector Limited	(dormant)	–	–
Kobalt Music Publishing (Italia) Limited	(dormant)	–	–
Sanctuary Kobalt (UB40) Limited		1	1
Sanctuary Kobalt (WAR) Limited		1	1
Kobalt Music Publishing America Inc		(345)	(345)
Kobalt Music Services America Inc		(169)	(169)

Where active, the principal activity of all these undertakings for the last relevant financial year was music publishing

13. Debtors

	2006	*2005*
	£000	*£000*
Amounts owed by group undertakings	2,144	1,308
Corporation tax	–	73
Other debtors	67	23
Prepayments and accrued income	60	25
	2,271	1,429

14 Creditors: amounts falling due within one year

	2006	*2005*
	£000	*£000*
Bank overdraft	–	22
Trade creditors	159	244
Accruals and deferred income	90	53
Amounts owed to group undertakings	325	69
Other taxes and social security costs	40	29
Other creditors	22	25
Obligations under finance leases and hire purchase contracts (note 16)	17	16
	653	458

Notes to the financial statements
at 30 June 2006

15. Creditors: amounts falling due after more than one year

	2006	*2005*
	£000	*£000*
Loan	–	504
Amounts owed to group undertakings	–	12
Obligations under finance leases and hire purchase contracts (note 16)	8	27
	8	543

16. Obligations under leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts

	2006	*2005*
	£000	*£000*
Amounts payable		
Within one year	21	18
In one to five years	10	30
	31	48
Less finance charges allocated to future periods	6	5
	25	43

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2006	*2005*
	£000	*£000*
Operating leases which expire		
Within one year	–	50
Between 2-10 years	95	–

Notes to the financial statements

at 30 June 2006

17. Share capital

				Authorised
			2006	*2005*
			£000	*£000*
Ordinary shares of £0 05 each			400	400

			Allotted, called up and fully paid	
		2006		*2005*
	No	*£000*	*No*	*£000*
Ordinary shares of £0 05 each	3,871,974	194	3,107,942	155

On 15 August 2005, 306,760 ordinary shares were issued for a total consideration of £843,590

On 10 November 2005, 240,000 ordinary shares were issued for a total consideration of £660,000

On 10 January 2006, 210,000 ordinary shares were issued as a result of the conversion of £504,000 of loan stock

On 24 January 2006, 7,272 ordinary shares were issued at par as a final consideration for the purchase of Diesel 2 Publishing & Management AB in 2000

Notes to the financial statements

at 30 June 2006

18. Reserves and reconciliation of shareholders' funds

	Share capital £000	*Share premium account £000*	*Profit and loss account £000*	*Total £000*
At 1 July 2004	141	3,285	(2,810)	616
Loss for year	–	–	(573)	(573)
Pre paid share capital	–	165	–	165
New equity share capital subscribed	14	666	–	680
Share issue costs	–	(33)	–	(33)
At 30 June 2005	155	4,083	(3,383)	855
Loss for year	–	–	(383)	(383)
New equity share capital subscribed	39	1,969	–	2,008
Reversal of pre-paid share capital	–	(165)	–	(165)
Share issue costs	–	(76)	–	(76)
At 30 June 2006	194	5,811	(3,766)	2,239

19. Capital commitments

At the end of the financial year there were no capital commitments (2005 - £nil)

20. Related party transactions

Debtors

Amounts owed by group undertakings are as follows

	2006 £000	*2005 £000*
Kojam Music Limited	198	214
Kobalt Music Publishing Limited	846	23
Kobalt Music Services Limited	336	1,028
Kollector Limited	–	1
Kojam Music AB	–	42
Kobalt Music Publishing America Inc	418	–
Kobalt Music Services America Inc	325	–
Diesel 2 Publishing and Management AB	21	–

Creditors amounts falling due within one year

Amounts owed to group undertakings are as follows

	2006 £000	*2005 £000*
KMG/Monumental	9	5
Kojam Music AB	24	63
Kobalt Music Administration Limited	292	1

Notes to the financial statements

at 30 June 2006

20. Related party transactions (continued)

Included in creditors are balances with related parties as shown below

	2006 £000	2005 £000
Spark Services Limited, a company controlled by a shareholder	–	68

Creditors amounts falling due after more than one year

Amounts owed to group undertakings are as follows

	2006 £000	2005 £000
Diesel 2 Publishing and Management AB	–	12

Profit and loss transactions

The following related party transactions arose in the year

		2006 £000	2005 £000
Kobalt Music Services Ltd, a subsidiary	Management fees received	1,096	1,000
Kobalt Music Publishing Ltd, a subsidiary	Management fees received	372	–
Kobalt Music Publishing America Inc, a subsidiary	Management fees received	131	–
Kobalt Music Administration Ltd, a subsidiary	Management fees received	8	–
Diesel 2 Publishing & Management AB, a subsidiary	Management fees received	19	18
Kobalt Music Services Ltd, a subsidiary	Interest received	98	–
Kobalt Music Publishing Ltd, a subsidiary	Interest paid	67	–
Kojam Music Ltd, a subsidiary	Interest received	45	–
Kobalt Music Administration Ltd, a subsidiary	Interest paid	2	–
Kobalt Music Publishing America Inc, a subsidiary	Interest received	20	–
Kobalt Music Services America Inc, a subsidiary	Interest received	4	–
Kojam Music AB, a subsidiary	Interest paid	1	–
Diesel 2 Publishing & Management AB, a subsidiary	Interest paid	18	–
Spark Services Limited, a company controlled by a shareholder	Fee payable in respect of office services	61	164

21. Post balance sheet event

Subsequent to the year end, the company, in November 2006, granted a fixed and floating charge over all its assets to its bankers in respect of any amounts owed to the bank