

**Company Registration No. 2692986**

**The Hit Label Limited**

**Report and Financial Statements**

**Period from 1 October 2010 to 31 December 2011**

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# **The Hit Label Limited**

## **Report and financial statements 2011**

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# **The Hit Label Limited**

## **Report and financial statements 2011**

### **Officers and professional advisers**

#### **Directors**

Mark Ranyard  
Hartwig Masuch  
Maximilian Dressendoerfer  
John Dobinson

#### **Secretary**

Simon Harvey

#### **Registered Office**

c/o Davenport Lyons  
30 Old Burlington Street  
London  
United Kingdom  
W1S 3NL

#### **Bankers**

Deutsche Bank AG London  
Winchester House  
1 Great Winchester Street  
EC2N 2DB

#### **Solicitors**

Russell's Solicitors  
1-4 Warwick Street  
Regency House  
London  
W1B 5LJ

#### **Auditor**

Deloitte LLP  
Chartered Accountants and statutory auditor  
London, United Kingdom

# **The Hit Label Limited**

## **Directors' report (continued)**

The directors present their Directors' report and financial statements for the period ended 31 December 2011 for The Hit Label Limited (the "Company")

### **Principal activities**

The principal businesses of the Company during the period ended 31 December 2011 was the collection and payment of royalties, and distribution of music recordings

On a selective basis, the Company also signs self-contained artists for new recordings, typically in combination with the signing of a publishing deal. In return for the licensing and administering the creative output of a recording artist, The Hit Label Limited retains a share of revenues generated from the use of the recording

### **Outlook**

The directors do not expect any significant changes to the business

### **Business review**

The Hit Label Limited is a United Kingdom subsidiary of BMG Rights Management (UK) Ltd ("BMG UK"). The Hit Label Limited owns and administers rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use

Following the acquisition of the Chrysalis Group by BMG Rights Management GmbH, the accounting reference date was changed from 30 September to 31 December. These financial statements therefore relate to the period from 1 October 2010 to 31 December 2011

### **Strategy**

The Hit Label Limited is part of an international group of companies focused on the management of music rights. The Company covers the entire range of rights administration, development and exploitation, placing the needs of songwriters and artists at the core of its business model. At the core of the Company's strategy is delivering a high quality rights administration service to artists and writers

### **Business performance 2011**

As shown in the Company's Statement of Comprehensive Income on page 8, the Company reported revenue of £11,014 and gross profit of £4,672

### **Key performance indicators**

The directors monitor the Company's performance in a number of ways including key performance indicators such as reported revenue, gross margin which comprises Net Publisher Share, operating loss (Earnings Before Interest and Taxes, "EBIT") and EBITDA (as adjusted for depreciation and amortisation). The Company is financed through intercompany funding from its group parent companies and through equity

### **Principal risks and uncertainties**

There are a number of market and business risks that could affect The Hit Label Limited. We set out below the Company's view of the main risks which could, should any actually materialise, materially and adversely affect the Company's business, financial condition and return to stakeholders. Further risks and uncertainties which are not presently known to the directors at the date of this document, or that the directors currently deem less significant, may also have an adverse effect on the business, financial condition or results of the group

### **Market risks**

#### ***Global economic outlook***

The Hit Label Limited received income from worldwide sources and is susceptible to changes in the global economy. Failure to adjust to changes in the global economy could have a material adverse effect on the Company's business. The Hit Label Limited is part of a broader group of rights administration companies which are actively building a business presence in the European, US and UK territories as a strategy to diversify this risk

## **The Hit Label Limited**

### **Directors' report (continued)**

#### ***Music industry growth***

The music industry is experiencing a period of on-going financial challenge due to the changing means by which consumers choose to access music, retail piracy, industrial piracy and a corresponding decline in the sale of physical product, which may not be offset completely by new digital and internet-based revenue streams

Intense competition in the music industry could result in higher artist and writer acquisition costs or failure to attract and retain key talent. Such competition may affect customer choices and options available to them for music publishing and administration contracts. These changes could materially and adversely affect the business of The Hit Label Limited

#### ***Music industry regulatory and business legal risk***

The music publishing industry is regulated, with mechanical and performance royalty rates set by industry bodies, over which the Company has no control. Any significant change to the payment structures operated within the music industry or any decrease in current mechanical or performance royalty rates could have a material adverse effect on the Company's business. Also, future copyright royalty rate arbitration and other industry wide regulations can change the relationships between record labels, artists and music publishers/writers. Such change in regulations could materially and adversely affect the business of The Hit Label Limited. Copyright royalties are either collected or controlled by third parties, such as collection societies, ceding control over royalty collections to such entities. This diminishes control and might result in lower revenues, if collection fees were revised upwards or collection scope was narrowed, thus affecting the business of The Hit Label Limited. The Company's business is highly dependent upon copyright ownership, a subject which has encountered increased litigation in recent years. If the Company is alleged to infringe the intellectual property rights of a third party, any litigation to defend the claim could be costly and would divert the time and resources of management of The Hit Label Limited, regardless of the merits of the claim. If The Hit Label Limited were to lose a litigation relating to intellectual property, it could be forced to pay monetary damages and to cease the sale of certain products or the use of certain technology. Any of the foregoing may adversely affect the Company's business.

#### **Business risks**

If The Hit Label Limited fails to keep pace with industry trends and developments, it may experience competitive disadvantage, which may result in lower margins and loss of market share. Failure to directly or indirectly exploit new growth areas, such as the use of music individual media, could have a material adverse effect on the Company's business. The future success of The Hit Label Limited therefore depends on the successful implementation of its growth strategy, both through signings and acquisitions.

#### **Client retention and performance of releases**

The Hit Label Limited's prospects may be adversely impacted if the business fails to identify, sign and retain songwriters and artists and by the absence of superstar releases. The decisions of potential clients to sign with The Hit Label Limited or decisions of existing clients to remain with The Hit Label Limited are complex and involve considerations of many factors. As such it is uncertain how many new clients The Hit Label Limited will sign and what proportion of existing clients will extend their agreements. Equally, The Hit Label Limited has no control over the release schedule of partnering record companies and the phasing of album releases can impact the Company's results on an annual basis.

#### **Dependency on third party service partners and shareholder affiliates**

Emerging channels for music distribution could significantly change the operational setting/configuration and financial performance/returns in the business. The Hit Label Limited relies on a number of third party business partners and shareholder affiliates to operate successfully. These include sub-Publishers, who support The Hit Label Limited in international rights management and license income collections.

Additionally, The Hit Label Limited outsources information technology infrastructure, certain finance and accounting functions and other back-office functions to affiliates operating as service providers in the respective functions.

# **The Hit Label Limited**

## **Directors' report (continued)**

### **Going concern**

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The ultimate parent company has confirmed its continued support of the Company.

Further details regarding the adoption of the going concern basis can be found in Note 1 to the financial statements.

### **Directors**

The directors who held office during the period, except as noted, were as follows:

Andy Mollett	(resigned 31 March 2011)
Chris Wright	(resigned 4 February 2011)
Mark Ranyard	(appointed 4 February 2011)
Hartwig Masuch	(appointed 4 February 2011)
Maximilian Dressendoerfer	(appointed 4 February 2011)
John Dobinson	(appointed 4 February 2011)

### **Dividends**

The directors do not recommend a dividend (2010: £nil).

### **Directors and officers insurance**

The Company maintains liability insurance for directors and officers of the Company.

### **Employees**

The Company has no employees.

### **Political and charitable contributions**

The Company made no political or charitable contributions or incurred any political expenditure during the current period or prior year.

### **Auditor**

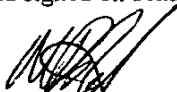
Each of the persons who are a director at the date of approval of this report confirms that:

- 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/she ought to have taken as a director in order to make himself/herself 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 will be proposed at the forthcoming Annual General Meeting.

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



M Ranyard  
Director

02 March 2012

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## **The Hit Label Limited**

### **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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern.

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.

## **Independent auditor's report to the members of The Hit Label Limited**

We have audited the financial statements of The Hit Label Limited for the period ended 31 December 2011 which comprise the Statement of Comprehensive Income, Statement of Financial Position, the Statement of Cash Flows, Statement of Changes in Equity and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 Statement of Directors' Responsibilities, 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 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 Company's affairs as at 31 December 2011 and of its loss for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, 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 period for which the financial statements are prepared is consistent with the financial statements.



## **Independent auditor's report to the members of The Hit Label Limited**

### **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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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



James Bates (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

Date 05 March 2012

## The Hit Label Limited

### Statement of comprehensive income Period ended 31 December 2011

		Period from 1 October 2010 to 31 December 2011 £	Year ended 30 September 2010 £
	Notes		
<b>Continuing operations</b>			
Revenue	2	11,014	34,368
Cost of sales		(6,342)	(14,163)
		<hr/>	<hr/>
<b>Gross profit</b>		4,672	20,205
Administrative expenses		(9,027)	(42,706)
		<hr/>	<hr/>
<b>Loss from operations</b>	3	(4,355)	(22,501)
Investment revenue	5	6,494	-
Finance costs	5	(2,562)	-
		<hr/>	<hr/>
<b>Loss before taxation</b>		(423)	(22,501)
Taxation	6	-	6,300
		<hr/>	<hr/>
<b>Loss for the period/year attributable to equity shareholder</b>		(423)	(16,201)
		<hr/>	<hr/>

The accompanying notes are an integral part of this statement of comprehensive income for the period ended 31 December 2011 and the Company did not have any items of other comprehensive income. All results relate to continuing operations.

# The Hit Label Limited

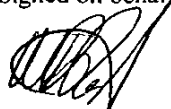
## Statement of financial position Period ended 31 December 2011

	Notes	Period ended 31 December 2011 £	Year ended 30 September 2010 £
<b>Non-current assets</b>			
Investments	7	-	514
Loans to group companies	12	661	529,605
		<u>661</u>	<u>530,119</u>
<b>Current assets</b>			
Trade and other receivables	8	13,468	14,951
Cash and cash equivalents	9	39,683	6,123
		<u>53,151</u>	<u>21,074</u>
<b>Total current assets</b>		<u>53,151</u>	<u>21,074</u>
<b>Total assets</b>		<u>53,812</u>	<u>551,193</u>
<b>Equity</b>			
Share capital	11	800,200	800,200
Retained earnings		(877,226)	(876,803)
		<u>(77,026)</u>	<u>(76,603)</u>
<b>Total shareholder's deficit</b>		<u>(77,026)</u>	<u>(76,603)</u>
<b>Current liabilities</b>			
Trade and other payables	10	83,182	582,246
		<u>83,182</u>	<u>582,246</u>
<b>Total current liabilities</b>		<u>83,182</u>	<u>582,246</u>
<b>Non-current liabilities</b>			
Loans from group companies	12	47,656	45,550
		<u>47,656</u>	<u>45,550</u>
<b>Total non-current liabilities</b>		<u>47,656</u>	<u>45,550</u>
<b>Total liabilities</b>		<u>130,838</u>	<u>627,796</u>
<b>Total equity and liabilities</b>		<u>53,812</u>	<u>551,193</u>

The accompanying notes are an integral part of this statement of financial position

The financial statements of The Hit Label Limited registered number 2692986 were approved by the Board of Directors on 02 March 2012

Signed on behalf of the Board of Directors



M Ranyard  
Director

## **The Hit Label Limited**

### **Statement of changes in shareholder's equity Period ended 31 December 2011**

	<b>Share capital £</b>	<b>Retained earnings £</b>	<b>Total £</b>
Opening shareholder's funds/(deficit) at 1 October 2010	800,200	(876,803)	(76,603)
Loss for the period	-	(423)	(423)
Closing shareholder's funds/(deficit) at 31 December 2011	<u>800,200</u>	<u>(877,226)</u>	<u>(77,026)</u>

The accompanying notes are an integral part of this statement of changes in shareholder's equity

## **The Hit Label Limited**

### **Statement of cash flows Period ended 31 December 2011**

	<b>Notes</b>	<b>Period ended 31 December 2011 £</b>	<b>Year ended 30 September 2010 £</b>
<b>Net cash from operating activities</b>	15	33,560	(495)
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the period/year		6,123	6,618
<b>Cash and cash equivalents at 31 December 2011/30 September 2010</b>		<b>39,683</b>	<b>6,123</b>

The accompanying notes are an integral part of this statement of cash flows

# **The Hit Label Limited**

## **Notes to the financial statements** **Period ended 31 December 2011**

### **1. Accounting policies**

The Hit Label Limited (the "Company") is a company incorporated in the UK

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union ("EU")

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

#### **Basis of preparation**

The financial statements are presented in pounds sterling, rounded to the nearest thousand. They are prepared on the historical cost basis.

Non-current assets are stated at the lower of carrying amount and fair value less costs to sell.

These financial statements represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the European Union ("EU"). The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was 1 October 2010. IFRS 1 requires the inclusion of three statements of financial position. The company has not complied with the requirement to disclose the opening financial position of the first period of adoption of IFRS as there has been no impact on the financial position as a result of this adoption.

Line-by-line reconciliations to show the effect of the transition from UK GAAP to IFRS are not presented as there was no impact on equity, earnings and comprehensive income and the statement of financial position as at 30 September 2010, 30 September 2009 and 1 October 2008 and the income statement and statement of comprehensive income for the year ended 30 September 2010.

The preparation of financial statements in conformity with IFRS which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### **Measurement convention**

The financial statements are prepared on the historical cost basis except financial instruments classified as fair value through the profit or loss. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

#### **Going concern**

The company'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 2 to 4. The Hit Label made a loss of £423 in the period and has net current liabilities of £30k at 31 December 2011. The directors have considered the financial resources available along with the future plans for the company and the support provided by the intermediate holding company BMG Rights Management GmbH when considering the going concern of the company. After making enquiries, the directors have a reasonable expectation that the company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

# **The Hit Label Limited**

## **Notes to the financial statements Period ended 31 December 2011**

### **1. Accounting policies (continued)**

#### **Foreign currency**

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

#### **Impairment excluding inventories and deferred tax assets**

The carrying amounts of the Company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in the equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

#### **Calculation of recoverable amount**

The recoverable amount of the Company's receivables earned at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### **Reversal of impairment**

An impairment loss in respect of receivable earned at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

# **The Hit Label Limited**

## **Notes to the financial statements Period ended 31 December 2011**

### **1. Accounting policies (continued)**

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

#### **Trade and other receivables**

Trade and other receivables at the statement of financial position date are stated at amortised cost which approximates to cost less impairment losses.

#### **Trade and other payables**

Trade and other payables to group companies include the group cash pooling financing facility with the parent company in Germany. The facility bears interest at 1.875% above the 3 month LIBOR market rate. Trade and other payables are stated at amortised cost which approximates to cost.

#### **Revenue**

Revenue is measured at the fair value of the consideration receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and value added tax.

Revenue from royalty licensing is recognised in accordance with IAS 18. Where revenue streams have a forward visibility revenue is recognised on an accruals basis. If there is no or minimal forward visibility of revenue streams it is not possible to measure the revenue streams reliably until cash is collected.

#### **Music publishing royalties**

Music publishing royalties derived from the inclusion of the Company's copyrights on recorded music products or from performance are recognised when they are earned by the Company from the relevant collection society or record company. The Company considers that it can most reliably measure such royalties following receipt of cash or a statement.

Where the Company receives advances which are recoupable from future sales or profits, or are otherwise conditional on continued performance of duties by the Company, these are recorded as liabilities. Revenue is recognised as it is earned.

Advance payments to artists are carried forward within other receivables where they relate to proven artists and where it is estimated that sufficient future income will be recouped against those advance payments. The advance payments should be written off if these are not covered by future income. In case of unproven contract the advance payments should be immediately written off. Any other royalty licensing income is recognised on a cash basis.

#### **Master record royalties**

Record royalties derived from the exploitation of the Company's master record rights is included on a receivable and/or due basis calculated on sales of records arising during each accounting period as reported by licensees. Based on the matching principle, royalties payable are accrued at the time the revenue is recognised.

#### **Expenses**

##### **Operating lease payments**

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense.



# **The Hit Label Limited**

## **Notes to the financial statements** **Period ended 31 December 2011**

### **1. Accounting policies (continued)**

#### **Taxation**

Tax on the loss for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

#### **Business Combinations**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at the fair value at the acquisition date, except that deferred tax assets or liabilities are measured in accordance with IAS 12 *Income Taxes*.

#### **Critical accounting judgements and key sources of estimation uncertainty**

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

The Company uses estimates to calculate the writer royalties due for the second half of the period for all the royalty receipts and company used industry standard rates estimate the royalties' accruals.

Writer advances provisions were made during the period based on calculation used across the Chrysalis group.

# The Hit Label Limited

## Notes to the financial statements Period ended 31 December 2011

### 1. Accounting policies (continued)

#### Adopted IFRS not yet applied

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective

Amendments to IFRS 7	<i>Disclosures – Transfers of Financial Assets<sup>1</sup></i>
IFRS 9	<i>Financial Instruments<sup>2</sup></i>
IFRS 10	<i>Consolidated Financial Statements<sup>2</sup></i>
IFRS 11	<i>Joint Arrangements<sup>2</sup></i>
IFRS 12	<i>Disclosure of Interests in Other Entities<sup>2</sup></i>
IFRS 13	<i>Fair Value Measurement<sup>2</sup></i>
Amendments to IAS 1	<i>Presentation of Items of Other Comprehensive Income<sup>3</sup></i>
Amendments to IAS 12	<i>Deferred Tax – Recovery of Underlying Assets<sup>4</sup></i>
IAS 19 (as revised in 2011)	<i>Employee Benefits<sup>2</sup></i>
IAS 27 (as revised in 2011)	<i>Separate Financial Statements<sup>2</sup></i>
IAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures<sup>2</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2012

The directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods

### 2. Revenue

An analysis of the Company's revenue is as follows

	Period from 1 October 2010 to 31 December 2011 £	Year ended 30 September 2010 £
<b>Exploitation of music rights</b>	<b>11,014</b>	<b>34,368</b>

The operations of the Company take place wholly in the United Kingdom and as such there are no overseas operations. Revenue was derived principally from activities conducted within the United Kingdom. The Company does not have any separable operating segments. All assets used by the Company are held in the United Kingdom.

# The Hit Label Limited

## Notes to the financial statements Period ended 31 December 2011

### 3. Loss from operations

Loss from operations has been arrived at after charging

	Period from 1 October 2010 to 31 December 2011 £	Year ended 30 September 2010 £
Loss on liquidation	514	-
Net foreign exchange loss	284	-
Auditor's remuneration	-	2,750
	<u>          </u>	<u>          </u>

The audit fee of £7,500 for the period was borne by the intermediate UK holding company, BMG Rights Management (UK) Limited

### 4. Employee costs and directors' remuneration

The directors received no remuneration from the Company for services during the current period (2010 £nil)

The Company did not have any other employees and as a result incurred no staff costs (2010 £nil)

### 5. Investment revenue/finance costs

	Period from 1 October 2010 to 31 December 2011 £	Year ended 30 September 2010 £
Investment revenue	6,494	-
Finance costs	(2,562)	-
	<u>          </u>	<u>          </u>
	3,932	-
	<u>          </u>	<u>          </u>

Finance costs and investment revenue represent interest charged and received from the parent company and other related parties in respect of cash pooling and loan facilities provided

# The Hit Label Limited

## Notes to the financial statements Period ended 31 December 2011

### 6. Taxation

	Period from 1 October 2010 to 31 December 2011 £	Year ended 30 September 2010 £
<b>Current taxation</b>		
UK corporation tax	-	(6,300)
<b>Deferred taxation</b>		
Current period	-	-
<b>Total tax expense</b>	<u>-</u>	<u>(6,300)</u>

### 6. Taxation (continued)

The charge for the period can be reconciled to the loss per the statement of comprehensive Income as follows

#### Tax reconciliation

	Period ended 31 December 2011 £	Year ended 30 September 2010 £
Loss before taxation	<u>(423)</u>	<u>(22,501)</u>
Tax credit using the UK corporation tax rate of 26.5% (2010: 28%)	(112)	(6,300)
Effects of Tax losses carried forward	<u>112</u>	<u>-</u>
	<u>-</u>	<u>(6,300)</u>

The standard rate of Corporation Tax in the United Kingdom changed from 28% to 26% with effect from 1 April 2011. Accordingly the Company's profits are taxed at an effective rate of 26.5%.

During the period, as a result of the change in the UK main corporation tax rate to 25% that was substantively enacted on 5 July 2011 and that will be effective from 1 April 2012, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rates by 1% per annum to 23% by 1 April 2014 have been announced and are expected to be enacted separately each year. The changes have not been recognised in these financial statements as they had not been substantively enacted at the balance sheet date.

A deferred tax asset of £286,000 (2010: £309,000) arises in the UK on tax losses which has not been recognised in the accounts as these assets can only be deducted against future suitable tax profits. There is currently insufficient evidence that suitable tax profits will be generated to offset the future reversal of these timing differences and therefore no asset has been recognised.

# The Hit Label Limited

## Notes to the financial statements Period ended 31 December 2011

### 7. Investment in subsidiaries

The movement in the period was as follows

	Period ended 31 December 2011 £	Year ended 30 September 2010 £
<b>Cost</b>		
Beginning of the period/year	514	514
Written off on liquidation	(514)	-
End of the period/year	-	514

Investments in subsidiaries shown above represent the cost of the shares of the wholly-owned subsidiary undertakings, less provisions made for any impairment in value. All companies held at 30 September 2010 were liquidated during the period.

Details of the principal investments of the Company as at 30 September 2010 were as follows

Subsidiary undertakings	Country of incorporation/operation	Principal activity	Description and proportion of ordinary shares held %
Speaking Books Limited	Great Britain	Dormant	51%
Who Am I? Music Limited	Great Britain	Dormant	100%
The Hit Record Company Limited	Great Britain	Dormant	100%

### 8. Trade and other receivables

	Period ended 31 December 2011 £	Year ended 30 September 2010 £
<b>Due within one year</b>		
Trade receivables	13,242	14,951
Other receivables	226	-
	<u>13,468</u>	<u>14,951</u>

Intercompany loans are interest-bearing

# The Hit Label Limited

## Notes to the financial statements Period ended 31 December 2011

### 9. Cash and cash equivalents

	Period ended 31 December 2011 £	Year ended 30 September 2010 £
Cash at bank	<u>39,683</u>	<u>6,123</u>

### 10. Trade and other payables

	Period ended 31 December 2011 £	Year ended 30 September 2010 £
<b>Due within one year</b>		
Bank overdraft	-	487,415
Trade and other payables	83,182	82,405
Trade and other payables to group companies	867	-
Other payables	-	8,676
Accruals and deferred income	-	3,750
	<u>84,049</u>	<u>582,246</u>

Trade and other payables to group companies include the group cash pooling facility balance with the parent company

### 11. Share capital

	Period ended 31 December 2011 £	Year ended 30 September 2010 £
<b>Allotted, called up and fully paid::</b>		
400,098 ordinary 'A' shares of £1 each	400,098	400,098
400,102 ordinary 'B' shares of £1 each	400,102	400,102
	<u>800,200</u>	<u>800,200</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company

### 12. Long term loans

	Period ended 31 December 2011 £	Year ended 30 September 2010 £
Loans receivable from group companies	661	529,605
Loans payable to group companies	(47,656)	(45,550)
	<u>46,995</u>	<u>484,055</u>

Intercompany loans are interest-bearing and repayable on demand

# The Hit Label Limited

## Notes to the financial statements Period ended 31 December 2011

### 13. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's business

#### (a) Fair values of financial instruments

##### Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the statement of financial position date if the effect is material

##### Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the statement of financial position date if the effect is material

##### Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the statement of financial position date

##### Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the statement of financial position date

##### Fair values

The fair values for each class of financial assets and financial liabilities together with their carrying amounts shown in the statement of financial position are as follows

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	£	£	£	£
Trade receivables	13,242	13,242	14,951	14,951
Trade and other receivables from group companies	226	226	-	-
Loans receivable from group companies	661	661	529,605	529,605
Cash and cash equivalents	39,683	39,683	6,123	6,123
Bank overdraft	-	-	(487,415)	(487,415)
Trade and other payables	(83,182)	(83,182)	(82,405)	(82,405)
Trade and other payables to group companies	(867)	(867)	-	-
Loans payable to group companies	(47,656)	(47,656)	(45,550)	(45,550)
Other payables	-	-	(8,676)	(8,676)
	<u>(77,893)</u>	<u>(77,893)</u>	<u>(73,367)</u>	<u>(73,367)</u>
Unrecognised gains/losses				-

#### (b) Credit risk

##### Financial risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. This risk is mitigated as balances are spread across multiple parties

## The Hit Label Limited

### Notes to the financial statements Period ended 31 December 2011

#### 13 Financial Instruments (continued)

The Company's principal financial assets are bank balances and trade receivables which represent the Company's maximum exposure to credit risk in relation to financial assets. The company bears the bad debt risk on all debtors. The Company's management make assessments on new customers before work is earned out, based on their knowledge of the industry and the customer's acceptance of imposed credit terms.

The amounts presented in the statement of financial position are net of allowances for doubtful receivables after taking into consideration the amount of balances covered by the Company's credit insurance policy. These have been estimated by the Company's management based on prior experience and their assessment of the current economic environment.

#### *Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the statement of financial position date was £13,242, being the total of the carrying amount of trade receivables, shown in the table above.

#### *Financial assets and impairment losses*

The ageing of trade receivables at the statement of financial position date was

	<b>Gross trade receivables £</b>	<b>2011 Doubtful debt provision £</b>	<b>Net trade receivables £</b>	<b>Gross trade receivables £</b>	<b>2010 Doubtful debt provision £</b>	<b>Net trade receivables £</b>
Not past due	13,242	-	13,242	14,951	-	14,951

#### *(c) Liquidity risk*

##### *Financial risk management*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

Liquidity is managed by group via the cash pooling facility.

#### *(d) Market risk*

##### *Financial risk management*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments.

##### *Market risk - Foreign currency risk*

A proportion of sales and purchases are invoiced in foreign currency (Euros) and the Company bears the foreign currency risk on these debtors and creditors.

##### *Sensitivity analysis — Foreign currency risk*

The Company did not issue any foreign currency invoices during the period ending 31 December 2011 and so exposure to foreign currency risk is minimal.

##### *Market risk – interest rate risk*

The Company's exposure to interest rate risk arises from the fluctuations in the rate of interest charged on cash and cash equivalent balances payable as impacted on by the changes in the Bank of England base rate. The Company utilises a group cash pooling facility, on which interest is charged at variable rates, based on the 3 month LIBOR market rate.



## The Hit Label Limited

### Notes to the financial statements Period ended 31 December 2011

#### 13. Financial Instruments (continued)

##### *Sensitivity analysis – interest rate risk*

A change of one percent in interest rates at the statement of financial position date would have increased the loss by the amounts shown below. This calculation assumes that the change occurred at the statement of financial position date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remains constant and considers the effect of financial instruments with variable interest rates.

At the period end it is estimated that an increase of one percentage rise in the 3 month LIBOR market rate would increase the Company's loss before taxation by approximately £500 (2010 (£4,800)).

#### 14. Related parties

##### **Identity of related parties**

The Company's parent company and group is a joint venture between the international media company Bertelsmann AG and the global private equity firm Kohlberg Kravis Roberts & Co (KKR). See note 14 for further detail. The Company had a related party relationship in the period with subsidiaries of the Bertelsmann AG group and the KKR group, and with its directors and executive officers.

##### **Related party transactions**

During the period the Company entered into the following transactions with related parties. The transactions were priced on an arm's length basis.

	Sales/ (purchases) of goods £	Sales/ (purchases) of assets £	Trade Balances receivable/ (payable) £	Loan Balances receivable/ (payable) £
Chrysalis Group Limited	-	-	-	(57)
Chrysalis Holdings Limited	-	-	-	508
Chrysalis Music Limited	-	-	-	90
Chrysalis Copyrights Limited	-	-	-	(47,650)
BMG Rights Management (UK) Limited	-	-	(867)	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(867)</b>	<b>(47,109)</b>

#### 15. Ultimate parent company and controlling party

On 4 February 2011, the Chrysalis Group was acquired by BMG Rights Management GmbH.

The immediate parent company is Chrysalis Holdings Limited, a company incorporated in the United Kingdom, which is in turn part of a holding group structure of which the parent is BMG RM Investments Luxembourg Sarl, a company incorporated in Luxembourg.

BMG RM Investments Luxembourg Sarl is a joint venture between the international media company Bertelsmann AG and the global private equity firm Kohlberg Kravis Roberts & Co.

The results of the Company are included in the consolidated financial statements of BMG RM Investments Luxembourg Sarl which is registered at 63, Rue Rollingergrund, L-2440 Luxembourg. These consolidated accounts are publicly available.

No other group financial statements include the results of the Company.

## **The Hit Label Limited**

### **Notes to the financial statements Period ended 31 December 2011**

#### **16. Notes to the cash flow statement**

##### **Cash flows from operating activities**

	<b>Period ended 31 December 2011 £</b>	<b>Year ended 30 September 2010 £</b>
Loss before taxation	(423)	(22,501)
Adjustment for:		
Loss on liquidation of investments	514	-
	<hr/>	<hr/>
Operating profit/(loss) before movements in working capital and provisions	91	(22,501)
Decrease in receivables	530,427	8,799
(Decrease)/increase in payables	(496,958)	6,907
	<hr/>	<hr/>
Cash generated from operations	33,560	(6,795)
Tax paid	-	6,300
	<hr/>	<hr/>
Net cash from operating activities	33,560	(495)