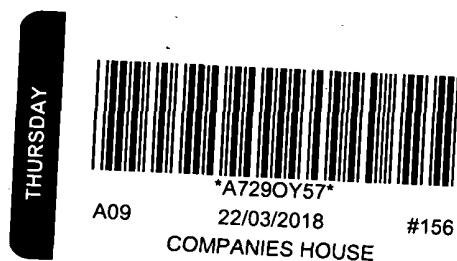


**Company Registration No. 03172570**

**Hornall Brothers Music Limited**

**Reports and Financial Statements**

**18 month period ended 31 December 2017**



# **Hornall Brothers Music Limited**

## **Reports and Financial Statements 2017**

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# **Hornall Brothers Music Limited**

## **Reports and financial statements 2017**

### **Officers and professional advisers**

#### **Directors**

Alexi Cory-Smith (appointed 11 January 2017; resigned 19 December 2017)

Maximilian Dressendörfer (appointed 11 January 2017)

Janet Hornall (resigned 11 January 2017)

Stuart Hornall

Hartwig Masuch (appointed 11 January 2017)

Alistair Norbury (appointed 26 February 2018)

Paul Wilson (appointed 11 January 2017)

#### **Company Secretary**

Erika Brennan (appointed 11 January 2017; resigned 30 June 2017)

#### **Registered Office**

8<sup>th</sup> Floor

5 Merchant Square

London

United Kingdom

W2 1AS

#### **Independent Auditors**

PricewaterhouseCoopers LLP

Chartered Accountants & Statutory Auditors

1 Embankment Place

London

WC2N 6RH

# **Hornall Brothers Music Limited**

## **Strategic report**

The directors present their Strategic report for the 18-month period ended 31 December 2017 for Hornall Brothers Music Limited (the "Company").

### **Business review**

On 11 January 2017, the Company was acquired by BMG Rights Management (UK) Limited ("BMG UK") which is a subsidiary of Bertelsmann SE & Co. KGaA.

The Company owns and administers rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use.

### **Strategy**

The Company 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.

### **Key performance indicators**

The directors monitor the Company's performance in a number of ways including key performance indicators such as reported revenue, net publisher's share (revenue received by a music publisher less royalties payable; "NPS") and operating profit, 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. The Company continues to perform in line with expectations.

### **Business performance**

As shown in the Company's Statement of comprehensive income on page 10, the Company reported revenues of £3,401,000 (2016: £2,090,000), gross profit of £227,000 (2016: £277,000). Revenue and gross profit is largely in line with prior periods.

The net liabilities as at 31 December 2017 were £147,000 (2016: £81,000).

### **Principal risks and uncertainties**

There are a number of market and business risks that could affect the Company. We set out below the Company's view of the main risks which could 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 Company receives 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 Company has partnered with global providers to diversify this risk.

#### ***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 the physical product, which may not be offset completely by new digital and internet-based revenue streams.

# Hornall Brothers Music Limited

## Strategic report (continued)

### *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 operating 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 Company. 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 Company. 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 Company, regardless of the merits of the claim. If the Company 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.

### *Impact of exiting the European Union*

As a result of the UK European Union membership referendum, any macro uncertainty may have a knock on impact to the overall health of the UK consumer market. Furthermore, there could be broader changes in regulation or legislation within the markets in which the Company operates. The likelihood or extent of any impact is currently unknown; the Company continues to monitor and evaluate potential areas of risk.

### **Financial risks**

#### *Exchange rate fluctuation risk*

The Company transacts and accounts in local currency, which is converted into the Company's reporting currency, creating an exposure to movements in foreign exchange rates. These exposures are not hedged.

#### *Interest rate fluctuation risk*

The Company is financed through intercompany borrowings which bear interest at short-term LIBOR rates plus a margin. The Company is therefore exposed to fluctuations in interest rates. These exposures are not hedged.

### **Business risks**

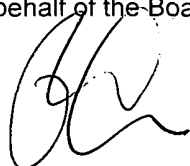
If the Company fails to keep pace with industry trends and developments, it may experience competitive disadvantage, which may result in lower margins and loss of market share. Failure to directly or indirectly exploit new growth areas, such as the use of music individual media, could have a material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

### **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 Company relies on a number of third party business partners and shareholders' affiliates to operate successfully. These include sub-Publishers, who support the Company in international rights management and licence income collections.

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

Paul Wilson  
Director  
15 March 2018



# **Hornall Brothers Music Limited**

## **Directors' report**

The directors present their Directors' report and audited financial statements for the 18-month period ended 31 December 2017 for Hornall Brothers Music Limited (the "Company") and the unaudited financial statements for the year ended 30 June 2016.

### **Principal activities**

The principal business of the Company during the 18-month period ended 31 December 2017 was the collection and payment of royalties.

The Company's music publishing business can be summarised as an intellectual property business focused on the exploitation of the copyright of songs. In return for promoting, placing, marketing and administering the creative output of a songwriter, the Company retains a share of revenues generated from use of the song. The services described above are also carried out on behalf of other rights holders such as catalogue owners and other publishing companies.

### **Outlook**

The directors do not expect any significant change in the activities of the Company.

### **Going concern**

The directors have considered the financial resources available along with the future plans for the Company and the support provided by the ultimate parent company, Bertelsmann SE & Co. KGaA, when considering the going concern status of the Company.

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.

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

### **Financial instruments**

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Company's business. The Company's exposure to financial instruments are discussed in the notes to the financial statements under the heading "Financial instruments".

### **Directors**

The directors of the Company who were in office during the period and up to the date of signing the financial statements were as follows:

Alexi Cory-Smith (appointed 11 January 2017; resigned 19 December 2017)  
Maximilian Dressendörfer (appointed 11 January 2017)  
Janet Hornall (resigned 11 January 2017)  
Stuart Hornall  
Hartwig Masuch (appointed 11 January 2017)  
Alistair Norbury (appointed 26 February 2018)  
Paul Wilson (appointed 11 January 2017)

### **Dividends**

The directors do not recommend a dividend for the year (2016: £nil).

### **UK accounting standards**

These financial statements reflect the adoption of International Financial Reporting Standards ("IFRS") on 1 July 2015. After a review of comparative figures for the year ended 30 June 2016, the transition from Financial Reporting Standard for Smaller Entities ("FRSSE") to IFRS has not resulted in any material accounting policy changes.

# **Hornall Brothers Music Limited**

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

### **Statement of disclosure of information to auditors**

Each of the persons who is 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 auditors are 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 auditors are aware of that information.

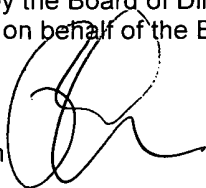
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

### **Independent Auditors**

PricewaterhouseCoopers LLP were first appointed as auditors on 20 July 2017 for the financial period ended 31 December 2017 and have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

Paul Wilson  
Director



15 March 2018

## **Hornall Brothers Music Limited**

### **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Reports and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting 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 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.

The directors 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.



# **Hornall Brothers Music Limited**

## **Independent auditors' report to the members of Hornall Brothers Music Limited**

### **Report on the financial statements**

#### **Opinion**

In our opinion, Hornall Brothers Music Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss and cash flows for the period then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Reports and Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2017; the Statement of comprehensive income, the Statement of cash flows, the Statement of changes in equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

# **Hornall Brothers Music Limited**

## **Independent auditors' report to the members of Hornall Brothers Music Limited (continued)**

### **Reporting on other information (continued)**

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### **Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the period ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

### **Responsibilities for the financial statements and the audit**

#### **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

# **Hornall Brothers Music Limited**

## **Independent auditors' report to the members of Hornall Brothers Music Limited (continued)**

### ***Use of this report***

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Other required reporting**

#### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

#### **Other matter**

The financial statements for the year ended 30 June 2015 and 18-month period to 30 June 2016, forming the corresponding figures of the financial statements for the year ended 31 December 2017, are unaudited.



Jonathan Ford (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

18 March 2018

# Hornall Brothers Music Limited

## Statement of comprehensive income for the 18-month period ended 31 December 2017

	Note	18-month period ended 31 December 2017 £'000	Unaudited year ended 30 June 2016 £'000
<b>Continuing operations</b>			
Revenue	2	3,401	2,090
Cost of sales		(3,174)	(1,813)
<b>Gross profit</b>		227	277
Administrative expenses		(288)	(230)
<b>(Loss)/profit from operations and before taxation</b>	3	(61)	47
Taxation	5	(5)	(26)
<b>(Loss)/profit and total comprehensive (loss)/income for the period/year</b>		(66)	21

The accompanying notes are an integral part of this Statement of comprehensive income. For the 18-month period ended 31 December 2017, the Company did not have any items of other comprehensive income. All results relate to continuing operations.

# Hornall Brothers Music Limited

## Statement of financial position as at 31 December 2017

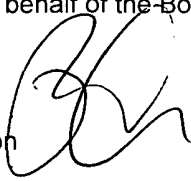
	Note	31 December 2017 £'000	Unaudited 30 June 2016 £'000	Unaudited 30 June 2015 £'000
<b>Non-current assets</b>				
Deferred tax asset	5	17	-	-
Property, plant and equipment	6	-	-	20
<b>Total non-current assets</b>		<u>17</u>	<u>-</u>	<u>20</u>
<b>Current assets</b>				
Trade and other receivables	7	3,112	522	414
Cash and cash equivalents	8	-	380	465
<b>Total current assets</b>		<u>3,112</u>	<u>902</u>	<u>879</u>
<b>Total assets</b>		<u>3,129</u>	<u>902</u>	<u>899</u>
<b>Current liabilities</b>				
Trade and other payables	9	3,276	983	1,001
<b>Total current liabilities</b>		<u>3,276</u>	<u>983</u>	<u>1,001</u>
<b>Total liabilities</b>		<u>3,276</u>	<u>983</u>	<u>1,001</u>
<b>Total net liabilities</b>		<u>(147)</u>	<u>(81)</u>	<u>(102)</u>
<b>Equity</b>				
Share capital	10	-	-	-
Accumulated losses		<u>(147)</u>	<u>(81)</u>	<u>(102)</u>
<b>Total equity</b>		<u>(147)</u>	<u>(81)</u>	<u>(102)</u>

The accompanying notes are an integral part of this Statement of financial position.

The financial statements, on pages 10 to 29, of Hornall Brothers Music Limited, registered number 03172570, were approved by the Board of Directors on 15 March 2018.

Signed on behalf of the Board of Directors

Paul Wilson  
Director



## **Hornall Brothers Music Limited**

### **Statement of changes in equity for the 18-month period ended 31 December 2017**

	<b>Share capital £'000</b>	<b>Accumulated losses £'000</b>	<b>Total equity £'000</b>
As at 1 July 2015 (unaudited)	-	(102)	<b>(102)</b>
Profit and total comprehensive income for the year (unaudited)	-	21	<b>21</b>
As at 30 June 2016 (unaudited)	-	(81)	<b>(81)</b>
Loss and total comprehensive loss for the period	-	(66)	<b>(66)</b>
As at 31 December 2017	-	(147)	<b>(147)</b>

The accompanying notes are an integral part of this Statement of changes in equity.

# Hornall Brothers Music Limited

## Statement of cash flows for the 18-month period ended 31 December 2017

	18-month period ended 31 December 2017 £'000	Unaudited year ended 30 June 2016 £'000
<b>Loss from operations and before taxation</b>	(61)	47
Adjustment for:		
Depreciation	-	9
Loss on disposal of fixed assets	-	5
Management recharge	123	-
	<hr/>	<hr/>
Operating profit before movements in working capital	62	61
Increase in trade and other receivables	(2,589)	(108)
Increase/(decrease) in trade and other payables	2,139	(44)
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	<b>(388)</b>	<b>(91)</b>
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Cash from disposal of fixed assets	-	6
	<hr/>	<hr/>
<b>Net cash generated from investing activities</b>	<b>-</b>	<b>6</b>
	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>	<b>(388)</b>	<b>(85)</b>
Cash and cash equivalents at the beginning of the period/year	380	465
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the period/year</b>	<b>(8)</b>	<b>380</b>
	<hr/>	<hr/>

The accompanying notes are an integral part of this Statement of cash flows.

# **Hornall Brothers Music Limited**

## **Notes to the financial statements 18-month period ended 31 December 2017**

### **1. Accounting policies**

Hornall Brothers Music Limited (the "Company") is a private company incorporated in the United Kingdom.

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

The Company has taken exemption from preparing consolidated financial statements afforded by section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of Bertelsmann SE & Co. KGaA which prepares consolidated financial statements that are publicly available (refer to note 14).

#### **Transition to International Financial Reporting Standards ("IFRS")**

These financial statements, for the period ended 31 December 2017, are the first financial statements of the Company that comply with IFRS. The date of the transition to IFRS is 1 July 2015. After review, the transition from Financial Reporting Standard for Smaller Entities ("FRSSE") to IFRS has not resulted in any accounting policy changes. The financial statements comply with the accounting policies selected in accordance with IFRS for the comparative reporting period ended 30 June 2016 and at 1 July 2015.

#### **Basis of preparation**

The financial statements are presented in pounds sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except for financial instruments which are recognised as per the measurement convention below.

The financial statements have been prepared in accordance with Companies Act 2006 and European Union ("EU") adopted International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

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.



# **Hornall Brothers Music Limited**

## **Notes to the financial statements 18-month period ended 31 December 2017**

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

#### **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 Strategic report and Directors' report on pages 2 to 5. The directors have considered the financial resources available along with the future plans for the Company and the support provided by the ultimate parent company Bertelsmann SE & Co. KGaA, through a letter of support for a period of at least 12 months from signing the financial statements, 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 ultimate parent company has confirmed its continued support of the Company.

#### **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.

#### **Property, plant and equipment**

Fixed assets that are acquired by the Company are stated at cost less accumulated depreciation.

Depreciation is charged to the Statement of comprehensive income on a straight-line basis over the estimated useful lives. The estimated useful lives are as follows:

Fixtures, fittings and equipment	5 years
----------------------------------	---------

#### **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.

#### **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.

#### **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 Statement of cash flows.

# Hornall Brothers Music Limited

## Notes to the financial statements 18-month period ended 31 December 2017

### 1. Accounting policies (continued)

#### Trade and other receivables

Trade and other receivables to Group companies include the Group cash pooling financing facility with the parent company in Germany. The facility earns interest at a margin of 0.125% less the bank of England base rate. 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 a margin of 1.25% above the bank of England base rate. Trade and other payables at the Statement of financial position date are stated at amortised costs which approximates to cost less impairment.

#### 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. According to IAS 18.29 revenue from royalties shall be recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. 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.

#### Net financing costs

Net financing costs comprise interest payable and interest receivable on funds invested. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

#### Taxation

Tax 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 periods.

# Hornall Brothers Music Limited

## Notes to the financial statements 18-month period ended 31 December 2017

### 1. Accounting policies (continued)

#### Taxation (continued)

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 Statement of financial position 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.

#### 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 using industry standard rates to estimate the royalties' accruals.

Writer advances provisions were made during the year based on a recoupment profile calculation used across the BMG Group.

#### New standards, amendments and interpretations

No new standards, amendments or interpretations, effective for the first time for the financial period beginning on or after 1 July 2016 have had a material impact on the group or parent company.

#### New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the group or parent company, except the following, set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. An expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. Early adoption is permitted. The group is working towards the implementation of IFRS 9 on 1 January 2018. It anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by adoption of IFRS 9, and expects to take the accounting policy choice to continue to account for all hedges under IAS 39. The main impact of adopting IFRS 9 is likely to arise from the implementation of the expected loss model. The expected impact at 1 January 2018 is to decrease retained earnings by £3,000. No material impact on profit for future periods is expected.

# Hornall Brothers Music Limited

## Notes to the financial statements 18-month period ended 31 December 2017

### 1. Accounting policies (continued)

#### New standards, amendments and interpretations not yet adopted (continued)

IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Variable consideration is included in the transaction price if it is highly probable that there will be no significant reversal of the cumulative revenue recognised when the uncertainty is resolved. The standard replaces IAS 18, 'Revenue', and IAS 11, 'Construction contracts', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018, and earlier application is permitted. The group is working towards the implementation of IFRS 15 on 1 January 2018 and has carried out a review of existing contractual arrangements as part of this process which has not identified any material adjustments. Therefore the directors do not anticipate any impact on earnings in 2018 following adoption of the new standard. The profile of cash receipts is not affected by this standard.

### 2. Revenue

An analysis of the Company's revenue is as follows:

	18-month period ended 31 December 2017 £'000	Unaudited year ended 30 June 2016 £'000
<b>Geographical market</b>		
United Kingdom	1,883	1,024
North America	29	42
Europe	1,307	836
Rest of World	182	188
	<hr/> 3,401	<hr/> 2,090

The operations of the Company take place wholly in the United Kingdom. Revenue was derived principally from activities conducted within the United Kingdom. All assets used by the Company are held in the United Kingdom.

# Hornall Brothers Music Limited

## Notes to the financial statements 18-month period ended 31 December 2017

### 3. (Loss)/profit from operations

(Loss)/profit from operations is stated after charging:

	18-month period ended 31 December 2017 £'000	Unaudited year ended 30 June 2016 £'000
Management recharge	123	-
Depreciation of tangible fixed assets	-	9
Operating lease payments	1	1

### 4. Employee costs and director's emoluments

From 1 July 2016 to 11 January 2017, the number of persons employed by the Company (including directors) was 3. Prior to the Company's acquisition by BMG Rights Management (UK) Limited on 11 January 2017, the Company terminated all employee contracts.

The monthly average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

#### Average number of employees

	18-month period ended 31 December 2017 No.	Unaudited year ended 30 June 2016 No.
Management and administration	1	2

	18-month period ended 31 December 2017 £'000	Unaudited year ended 30 June 2016 £'000
Wages and salaries	30	62
Social security costs	1	13
<b>Total</b>	<b>31</b>	<b>75</b>

# Hornall Brothers Music Limited

## Notes to the financial statements 18-month period ended 31 December 2017

### 4. Employee costs and director's emoluments (continued)

#### Remuneration of directors

	18-month period ended 31 December 2017 £'000	Unaudited year ended 30 June 2016 £'000
Emoluments (excluding pension contributions)	6	13
Social security costs	-	6
<b>Total</b>	<b>6</b>	<b>19</b>

#### Highest paid director

	18-month period ended 31 December 2017 £'000	Unaudited year ended 30 June 2016 £'000
Emoluments (excluding pension contributions)	4	5
Social security costs	-	3
<b>Total</b>	<b>4</b>	<b>8</b>

Post acquisition the directors did not receive emoluments in respect of their services to the Company (2016: £8,000). Their emoluments were borne by the parent company BMG Rights Management (UK) Limited.

# Hornall Brothers Music Limited

## Notes to the financial statements 18-month period ended 31 December 2017

### 5. Taxation

	18-month period ended 31 December 2017 £'000	Unaudited year ended 30 June 2016 £'000
<b>Current taxation</b>		
UK corporation tax – foreign tax	23	11
UK corporation tax – current period/year	6	15
UK corporation tax – prior period/year	(7)	-
	<hr/>	<hr/>
	22	26
<b>Deferred taxation</b>		
UK deferred tax – current period/year	(17)	-
	<hr/>	<hr/>
<b>Total tax charge</b>	<hr/> <hr/> 5	<hr/> <hr/> 26

The tax assessed for the year differs from (2016: is the same as) the standard effective rate of corporation tax in the UK for the period ended 31 December 2017 of 19.5% (2016: 20%). The differences are explained below:

#### Tax reconciliation

	18-month period ended 31 December 2017 £'000	Unaudited Year ended 30 June 2016 £'000
Profit before taxation	(61)	47
	<hr/>	<hr/>
Tax rate of 19.5% (2016: 20%)	(12)	9
Effects of:		
Overseas tax difference	19	9
Non-deductible expenses	4	8
Rate change	1	-
Corporation tax – prior period/year	(7)	-
	<hr/>	<hr/>
<b>Total tax charge</b>	<hr/> <hr/> 5	<hr/> <hr/> 26

## Hornall Brothers Music Limited

### Notes to the financial statements 18-month period ended 31 December 2017

#### 5. Taxation (continued)

At 31 December 2017 a deferred tax asset has been recognised for the tax base in relation to tax losses to the extent that the future benefit is expected to be utilised by the company or surrendered to other UK group companies.

During 2016 changes to the UK main corporation tax rate were enacted. The tax rate has fallen to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2010. Accordingly deferred tax has been provided at 17% (2016: 19%).

#### Recognised deferred taxation assets

	31 December 2017 £'000	Unaudited 30 June 2016 £'000	Unaudited 30 June 2015 £'000
At beginning of the period/year	-	-	-
Losses recognised	17	-	-
	<hr/>	<hr/>	<hr/>
At end of the period/year	17	-	-
	<hr/>	<hr/>	<hr/>



# Hornall Brothers Music Limited

## Notes to the financial statements 18-month period ended 31 December 2017

### 6. Property, plant and equipment

	Short-term leasehold property £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
<b>Cost</b>				
At 1 July 2015 (unaudited)	76	14	99	189
Disposals (unaudited)	(76)	(14)	(99)	(189)
At 30 June 2016 (unaudited)	-	-	-	-
At 31 December 2017	-	-	-	-
<b>Accumulated depreciation</b>				
At 1 July 2015 (unaudited)	62	14	93	169
Charge (unaudited)	8	-	1	9
Disposals (unaudited)	(70)	(14)	(94)	(178)
At 30 June 2016 (unaudited)	-	-	-	-
At 31 December 2017	-	-	-	-
<b>Net book amount</b>				
At 31 December 2017	-	-	-	-
At 30 June 2016 (unaudited)	-	-	-	-
At 30 June 2015 (unaudited)	14	-	6	20

# Hornall Brothers Music Limited

## Notes to the financial statements 18-month period ended 31 December 2017

### 7. Trade and other receivables

	31 December 2017 £'000	Unaudited 30 June 2016 £'000	Unaudited 30 June 2015 £'000
<b>Due within one year</b>			
Trade and other receivables	1,058	522	414
Trade and other receivables from group companies	2,054	-	-
	<u>3,112</u>	<u>522</u>	<u>414</u>

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

### 8. Cash and cash equivalents

	31 December 2017 £'000	Unaudited 30 June 2016 £'000	Unaudited 30 June 2015 £'000
Cash at bank	<u>-</u>	<u>380</u>	<u>465</u>

### 9. Trade and other payables

	31 December 2017 £'000	Unaudited 30 June 2016 £'000	Unaudited 30 June 2015 £'000
<b>Due within one year</b>			
Bank overdraft	8	-	-
Trade and other payables	3,137	983	1,001
Trade and other payables to group companies	131	-	-
	<u>3,276</u>	<u>983</u>	<u>1,001</u>

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

# Hornall Brothers Music Limited

## Notes to the financial statements 18-month period ended 31 December 2017

### 10. Share capital

	31 December 2017 £'000	Unaudited 30 June 2016 £'000	Unaudited 30 June 2015 £'000
<b>Authorised, issued and fully paid:</b>			
2 (2016: 2) ordinary share of £1 each	-	-	-

### 11. Financial instruments

Exposure to credit, liquidity, 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.

# Hornall Brothers Music Limited

## Notes to the financial statements 18-month period ended 31 December 2017

### 11. Financial instruments (continued)

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

##### Fair values

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

	31 December 2017		Unaudited 30 June 2016		Unaudited 30 June 2015	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Deferred tax assets	17	17	-	-	-	-
Trade and other receivables	1,058	1,058	522	522	414	414
Trade and other receivables from group companies	2,054	2,054	-	-	-	-
Cash at bank	-	-	380	380	465	465
Trade and other payables	(3,137)	(3,137)	(983)	(983)	(1,001)	(1,001)
Trade and other payables to group companies	(131)	(131)	-	-	-	-
Bank overdraft	(8)	(8)	-	-	-	-
	<u>(147)</u>	<u>(147)</u>	<u>(81)</u>	<u>(81)</u>	<u>(122)</u>	<u>(122)</u>
Unrecognised (losses)/gains		-		-		-

#### (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 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.

# Hornall Brothers Music Limited

## Notes to the financial statements 18-month period ended 31 December 2017

### 11. Financial instruments (continued)

#### (b) Credit risk (continued)

##### *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 £1,058,000 (30 June 2016: £522,000, 2015: £414,000), being the total of the carrying amount of trade and other 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 £'000</b>	<b>Doubtful debt provision £'000</b>	<b>Net trade receivables £'000</b>
<b>Not past due</b>			
31 December 2017	1,058	-	1,058
30 June 2016 (unaudited)	522	-	522
30 June 2015 (unaudited)	414	-	414

#### (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 the group via the cash pooling facility.

The Company's financial liabilities are shown in note 9. All amounts are repayable within contracted terms.

#### (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.

##### *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. The Company does not take out forward contracts on currency.

##### *Sensitivity analysis – Foreign currency risk*

The Company did not issue many foreign currency invoices during the period/year ended 31 December 2017, 30 June 2016 and 30 June 2015, so exposure to foreign currency risk is minimal.

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

The Company utilises a group cash pooling facility, on which interest is charged at variable rates, based on the Bank of England base rate plus a margin of 1.25%. 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.

# Hornall Brothers Music Limited

## Notes to the financial statements 18-month period ended 31 December 2017

### 11. Financial instruments (continued)

#### (d) Market risk (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 amount 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 £18,000 (30 June 2016: £nil, 2015: £nil).

### 12. Financial commitments

The Company leases the premises which it occupies under a operating lease. The future minimum lease payments are as follows:

	<b>Land and building</b>		
	<b>2017</b>	<b>Unaudited</b>	<b>Unaudited</b>
	<b>£'000</b>	<b>30 June</b>	<b>30 June</b>
		<b>2016</b>	<b>2015</b>
		<b>£'000</b>	<b>£'000</b>
Within one year	-	1	1
Within 2 to 5 years	-	4	5
More than 5 years	-	-	-
	<hr/>	<hr/>	<hr/>
	-	5	6
	<hr/>	<hr/>	<hr/>

All previous operating leases were settled during the 18-month period ended 31 December 2017 and no commitment exists as at 31 December 2017.

### 13. Related parties

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

The Company's ultimate parent company and group is the international media company Bertelsmann SE & Co. KGaA.

The Company had a related party relationship in the period 11 January 2017 – 31 December 2017 with subsidiaries of Bertelsmann SE & Co. KGaA, and with its directors and executive officers.

## Hornall Brothers Music Limited

### Notes to the financial statements 18-month period ended 31 December 2017

#### 13. Related parties (continued)

##### 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.

	Purchases of goods £'000		Trade balances receivable £'000		Director loan balances receivable £'000	
	2017	2016	2017	2016	2017	2016
BMG Rights Management (UK) Limited	(31)	-	1,919	-	-	-
BMG VM Music Limited	-	-	9	-	-	-
Janet and Stuart Hornall	-	-	-	-	-	16
<b>Total</b>	<b>(31)</b>	<b>-</b>	<b>1,928</b>	<b>-</b>	<b>-</b>	<b>16</b>

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

On 11 January 2017 BMG Rights Management (UK) Limited acquired 100% of the share capital of the Company.

The immediate parent company is BMG Rights Management (UK) Limited, a company incorporated in the United Kingdom. The ultimate parent is Bertelsmann SE & Co. KGaA.

The results of the Company are included in the consolidated financial statements of Bertelsmann SE & Co. KGaA which is registered at Carl-Bertelsmann-Strasse 270, 33311 Gütersloh, Germany. These consolidated financial statements are publicly available.

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