

**Company Registration No. 03849332**

**KOBALT NEIGHBOURING RIGHTS  
LIMITED (formerly KOBALT MUSIC  
RIGHTS AGENCY LIMITED)**

**Annual Report and Financial Statements**

**For the year ended 30 June 2020**



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**KOBALT NEIGHBOURING RIGHTS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**For the year ended 30 June 2020**

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**KOBALT NEIGHBOURING RIGHTS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**For the year ended 30 June 2020**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

Laurent Hubert  
James Arnay  
T Sansone  
Ann Tausis

**COMPANY SECRETARY**

T Sansone

**REGISTERED OFFICE**

The River Building  
1 Cousin Lane  
London  
EC4R 3TE

**BANKERS**

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

JP Morgan Chase Bank  
National Association  
2029 Century Park West  
38<sup>th</sup> Floor  
Los Angeles  
California  
90067

**AUDITOR**

Deloitte LLP  
Statutory Auditor  
Reading  
RG1 3BD

# KOBALT NEIGHBOURING RIGHTS LIMITED

## DIRECTORS' REPORT

For the year ended 30 June 2020

The directors present their annual report and the audited financial statements for the year ended 30 June 2020.

This report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies. The directors have taken advantage of section 414B whereby the Company is exempt from preparing a strategic report.

### DIRECTORS

The directors who served throughout the period and to the date of this report were as follows:

Laurent Hubert (appointed 31 March 2020)

James Arnay (appointed 31 March 2020)

T Sansone

Ann Tausis

C J Winchester (resigned 31 March 2020)

### PRINCIPAL BUSINESS ACTIVITIES AND BUSINESS REVIEW

Kobalt Neighbouring Rights Limited is a private company limited by shares, domiciled in England. The ultimate parent company is Kobalt Music Group Limited, (the 'Group').

The principal activity of the Company in the period under review was that of the commissions recognised on receipt of monies from societies for neighbouring rights income.

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

As shown in the Company's Income Statement account on page 8, the Company's turnover has increased by £947k over the prior year. The profit after tax is £1,970k compared to the previous period's profit of £533k.

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

	2020	2019	Movement
Increase in turnover	71%	(18)%	89%

The Company is financed by working capital, loans from the parent company and equity.

The Company does not have any employees in the current or prior period

### BREXIT

Brexit was agreed and effective from 1<sup>st</sup> January 2021. The impact of Brexit is not expected to be significant on the operations of the Company and the Company will continue to monitor any potential Brexit changes and the related impact on the Company.

**Covid-19 Risk:** The Company has continually monitored and updated for COVID-19 impact on the business. Given the Group's significant revenues from intercompany charges, which is largely unimpacted, COVID-19 is not expected to have a material impact on profitability.

### GOING CONCERN

During the year the Company met its working capital requirements through a combination of trading income and support from its ultimate parent company, Kobalt Music Group Limited.

As at 30 June 2020 the Company had cash reserves of £5,735k (2019: £2,525k) and net current liability position of £(396)k (2019: £587k net current asset). The Company made a profit after tax of £1,970k (2019: £533k).

The Company has financial support from its ultimate parent, Kobalt Music Group Limited, ("Group"). During the year the Group made a loss of \$73.3 million and at the balance sheet date had net liabilities of \$111.0 million and net current assets of \$6.6 million. The current and prior year losses are reflective of the strategic decision to invest in the future and in FY21 the Group is forecasting EBITDA profitability.

The Group's cash position remained strong, with cash of \$151.4 million held at the balance sheet date. This includes a term loan of \$185 million in place as at 30 June 2020 with a maturity of 2023.

## **KOBALT NEIGHBOURING RIGHTS LIMITED**

### **DIRECTORS' REPORT (continued)**

**For the year ended 30 June 2020**

#### **GOING CONCERN (continued)**

The Group has continually monitored and updated for COVID-19 impact on the business which has predominantly impacted live performance income and synch income. Given the Group's significant revenues from digital income, which is largely unimpacted, COVID-19 is not expected to have a material impact on profitability. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

The directors acknowledge the Group is trading in an uncertain economic environment, although it is their belief that the Group is well positioned to meet its business objectives. The directors have prepared projected cash flow information for the period ending June 2021 and beyond and examined the results of sensitivity analysis on their forecasts to assess the effect on cash given certain downside scenarios. These projections anticipate that the Group will be able to operate from cash generated from trading, together with the bank facility in place.

Based on the above, the directors have concluded that the Group will continue in operational existence for the foreseeable future even if there were to be significant reductions in its planned revenues over this period. Given the Group can continue operating as a going concern, the directors believe that the Group will be able to continuously support KNR and therefore consider it appropriate to prepare the company's financial statements on the going concern basis.

#### **Company Rationalisation**

For the year ended 30 June 2020 formerly Kobalt Rights Agency Limited was hived-up into Kobalt Neighbouring Rights Limited. The Company has applied hybrid accounting, FRS 102.19.27 to account for the merger of Kobalt Rights Agency Limited assets and liabilities. As per the hybrid accounting method, the Company has transferred assets and liabilities at nominal value as at 30 June 2020. The Company has not restated comparatives for 2019 to include the transferred business.

#### **DIRECTORS' INDEMNITIES**

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

#### **DIVIDENDS**

The directors do not recommend the payment of a dividend (2019: £nil).

#### **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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. 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.

## **KOBALT NEIGHBOURING RIGHTS LIMITED**

### **DIRECTORS' REPORT (continued) For the year ended 30 June 2020**

#### **AUDITOR**

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he / she ought to have taken as a director 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 as auditor will be proposed at the forthcoming Annual General Meeting.

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



**T Sansone**

**Director**

25 January 2021

# **KOBALT NEIGHBOURING RIGHTS LIMITED**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KOBALT NEIGHBOURINGMUSIC RIGHTS LIMITED**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of Kobalt Neighbouring Rights Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 30 June 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position;
- the statement of accounting policies; and
- the related notes 1 to 12.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters

## **KOBALT NEIGHBOURING RIGHTS LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KOBALT NEIGHBOURING MUSIC RIGHTS LIMITED (continued)**

#### **Report on the audit of the financial statements (continued)**

##### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

##### **Auditor's 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 auditor's 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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

##### **Report on other legal and regulatory requirements**

##### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

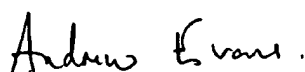


## **KOBALT NEIGHBOURING RIGHTS LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KOBALT NEIGHBOURING MUSIC RIGHTS LIMITED (continued)**

#### **Use of our report**

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.



Andrew Evans, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Reading, United Kingdom

25 January 2021

# KOBALT NEIGHBOURING RIGHTS LIMITED

## INCOME STATEMENT

For the year ended 30 June 2020

	Note	2020 £'000	2019 £'000
<b>TURNOVER</b>		<u>2,290</u>	<u>1,343</u>
<b>GROSS PROFIT</b>		2,290	1,343
Administrative expenses	3	(1,789)	(1,261)
Foreign exchange gains		<u>1,309</u>	<u>343</u>
<b>OPERATING PROFIT</b>	4	1,810	425
Interest receivable and similar income		<u>160</u>	<u>108</u>
<b>PROFIT BEFORE TAXATION</b>		1,970	533
Tax on profit for the year	5	<u>-</u>	<u>-</u>
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u>1,970</u>	<u>533</u>

All activities derive from continuing operations.

**KOBALT NEIGHBOURING RIGHTS LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 30 June 2020**

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
<b>PROFIT FOR THE FINANCIAL YEAR</b>	1,970	533
Other comprehensive income for the year	<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>	<u>1,970</u>	<u>533</u>

# KOBALT NEIGHBOURING RIGHTS LIMITED

## STATEMENT OF CHANGES IN EQUITY For the year ended 30 June 2020

	Share capital £'000	Retained earnings £'000	Merger Reserves £'000	Total £'000
<b>Balance at 1 July 2018</b>	-	55	-	55
Total comprehensive profit for the year	-	533	-	533
<b>Balance at 30 June 2019</b>	-	588	-	588
Total comprehensive profit /(loss) for the year	-	1,970	(2,954)	(984)
<b>Balance at 30 June 2020</b>	-	2,558	(2,954)	(396)

# KOBALT NEIGHBOURING RIGHTS LIMITED

## STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 2020

	Note	2020 £'000	2019 £'000
<b>Current assets</b>			
Trade and other receivables	6	20,335	5,595
Cash and bank balances		<u>5,735</u>	<u>2,525</u>
<b>Total assets</b>		<u>26,070</u>	<u>8,120</u>
<b>Current liabilities</b>			
Trade and other payables	7	<u>(26,466)</u>	<u>(7,533)</u>
<b>Net current assets</b>		<u>(396)</u>	<u>587</u>
<b>Total assets less current liabilities, Net (liabilities)/assets</b>		<u>(396)</u>	<u>587</u>
<b>Equity</b>			
Share capital	8	-	-
Retained earnings	9	2,558	587
Merger reserves		<u>(2,954)</u>	<u>-</u>
<b>(Deficit) / Equity attributable to owners of the Company</b>		<u>(396)</u>	<u>587</u>

The financial statements of Kobalt Music Rights Limited, registered number 03849332, were approved by the Board of Directors and authorised for issue on 25 January 2021.

Signed on behalf of the Board of Directors:



**T Sansone**

**Director**

25 January 2021

# **KOBALT NEIGHBOURING RIGHTS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2020**

### **1. ACCOUNTING POLICIES**

The principal accounting policies are summarised below.

#### **Basis of accounting**

Kobalt Neighbouring Rights Limited (the 'Company') is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 1.

These financial statements are presented in pounds sterling, which is also the functional currency because that is the currency of the primary economic environment in which the Company operates.

The financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to certain disclosures regarding the Company's capital, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, certain related party transactions and financial instruments. Where relevant, equivalent disclosures have been given in the group accounts of Kobalt Music Group Limited.

#### **Going concern**

The Company has financial support from its ultimate parent, Kobalt Music Group Limited, ("Group"). During the year the Group made a loss of \$73.3 million and at the balance sheet date had net liabilities of \$111.0 million and net current assets of \$6.6 million. The current and prior year losses are reflective of the strategic decision to invest in the future and in FY21 the Group is forecasting EBITDA profitability.

The Group's cash position remained strong, with cash of \$151.4 million held at the balance sheet date. This includes a term loan of \$185 million in place as at 30 June 2020 with a maturity of 2023.

The Group has continually monitored and updated for COVID-19 impact on the business which has predominantly impacted live performance income and synch income. Given the Group's significant revenues from digital income, which is largely unimpacted, COVID-19 is not expected to have a material impact on profitability. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

The directors acknowledge the Group is trading in an uncertain economic environment, although it is their belief that the Group is well positioned to meet its business objectives. The directors have prepared projected cash flow information for the period ending June 2021 and beyond and examined the results of sensitivity analysis on their forecasts to assess the effect on cash given certain downside scenarios. These projections anticipate that the Group will be able to operate from cash generated from trading, together with the bank facility in place.

Based on the above, the directors have concluded that the Group will continue in operational existence for the foreseeable future even if there were to be significant reductions in its planned revenues over this period. Given the Group can continue operating as a going concern, the directors believe that the Group will be able to continuously support KNR and therefore consider it appropriate to prepare the company's financial statements on the going concern basis.

#### **Measurement basis**

The financial statements have been prepared on a historical cost basis.

#### **Turnover**

Turnover comprises commissions receivable net of VAT and is recognised on receipt of monies from societies for neighbouring rights income. The Company has one revenue stream therefore has not adopted to have a separate note for revenue.

#### **Foreign currency translation**

Assets and liabilities in foreign currencies are translated into sterling (GBP) at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies, other than purchases of sterling, are translated into sterling at average monthly rates. Purchases of sterling are translated at the rate ruling on the date of the transaction. Exchange differences (including closing balances) are taken into account in arriving at the operating result. Exchange differences on opening net assets are taken directly to reserves.

# **KOBALT NEIGHBOURING RIGHTS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2020**

### **1. ACCOUNTING POLICIES (continued)**

#### **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

#### ***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

#### ***Deferred tax***

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### ***Current tax and deferred tax for the year***

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

#### **Financial instruments**

Financial assets and liabilities, such as cash, trade receivables and trade payables, arise directly from the Company's operating activities. Trade receivables are short term and recognised at the undiscounted amount owed to the Company. Trade payables are short term and recognised at the undiscounted amount due from the Company. Any intercompany balances will be recognised at amortised cost.

#### **Management charges**

Intercompany management charges are costs incurred for services performed by other Group entities on behalf of the Company. Expenses are recharged at cost plus a mark-up.

# KOBALT NEIGHBOURING RIGHTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2020

### 1. ACCOUNTING POLICIES (Continued)

#### New standards and interpretations not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

Title	Subject	As issued by the IASB, mandatory for accounting periods starting on or after
IFRS – Conceptual Framework Amendment	Amendments to Conceptual Framework references	1 Jan 2020
IFRS 3 – Amendment	Definition of Business	1 Jan 2020
IAS 1, IAS 8 Amendment	Definition of Material	1 Jan 2020
IFRS 9, IAS 39, IFRS 7 Amendment	Interest Rate Benchmark Reform	1 Jan 2021
IFRS 17	Insurance Contracts	1 Jan 2021
IFRS 10, IAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed

#### Hybrid accounting

For the year ended 30 June 2020 formerly Kobalt Rights Agency Limited was hived-up into Kobalt Neighbouring Rights Limited. The Company has applied hybrid accounting, FRS 102.19.27 to account for the transfer of Kobalt Rights Agency Limited assets and liabilities. As per the hybrid accounting method, the Company has transferred assets and liabilities at nominal value as at 30 June 2020, resulting in a merger reserve. The Company has not restated comparatives for 2019 to include the transferred business.

### 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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.

#### Critical judgements in applying the Company's accounting policies

The following are the critical judgements, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue from the provision of services set out in FRS 101, in particular whether the Company can reliably measure the revenue due from its contractual counterparts. The directors are satisfied that the valuation method adopted in making this measurement of the revenue in the current period is appropriate.



## KOBALT NEIGHBOURING RIGHTS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

#### 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

##### Revenue recognition (continued)

There are no key sources of estimation uncertainty in the financial statements.

##### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

##### Recoverability of advances

In the course of its business the Company regularly makes advances to clients which are recoupable by means of future royalty receipts, but non-refundable.

The directors assess the recoverability of these advances by considering historic earning trends of the clients concerned and also with reference to expected future earnings. Where the discounted value of future earnings is less than the amount advanced a provision is booked against the advance.

#### 3. ADMINISTRATIVE EXPENSES

	2020 £'000	2019 £'000
Bank charges	20	13
Other administrative costs	5	48
Management charges	1,764	1,200
	<u>1,789</u>	<u>1,261</u>

#### 4. OPERATING PROFIT

The auditor's remuneration for the audit of the financial statements for the period was £7k (2019: £6k) for the audit and £3k (2019: £3k) for tax services. Both costs were borne by the ultimate parent company.

The Company did not pay any directors' remuneration. In the current and prior year the directors of this Company were remunerated by the ultimate parent company, Kobalt Music Group Limited. The total amounts paid by the parent for directors' remuneration for the year ended 30 June 2020 were £6.9m (2019: £4.2m), restated to include the full directors remuneration. The Company does not have any employees in current year of 2020.

# KOBALT NEIGHBOURING RIGHTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2020

### 5. TAX ON PROFIT FOR THE YEAR

The major components of income tax expense for the years ended 30 June 2020 and 2019 are:

	2020 £'000	2019 £'000
Current income tax	-	-
Total current tax	-	-

The standard rate of tax for the period, based on the United Kingdom standard rate of corporation tax is 19% (2019: 19%). The UK Government enacted legislation to maintain the main rate of UK corporation tax at 19% from 1 April 2020 and deferred tax is now calculated at 19%. Under the enacted legislation at 30 March 2019 the rate was set to reduce to 17% from 1 April 2020 resulting in deferred tax being calculated at 17% in the prior period. The actual tax charge for the current period differs from the standard tax rate for the reasons set out in the following reconciliation:

	2020 £'000	2019 £'000
Profit before tax	1,970	533
Tax on profit at standard rate at 19% (2019: 19%)	374	101
Factors affecting charge for the period:		
Group relief claimed	(374)	(101)
Total actual amount of current tax	-	-

### 6. TRADE AND OTHER RECEIVABLES

	2020 £'000	2019 £'000
Other receivables	12	62
Accrued income	11,533	2,460
Amounts due from the parent	-	2,883
Royalty advances	8,790	190
	20,335	5,595

Other receivables and amounts owed by group companies, are measured at unamortised amount receivable.

The directors consider that the carrying amount of other receivables is approximately equal to their fair value.

## KOBALT NEIGHBOURING RIGHTS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

#### 7. TRADE AND OTHER PAYABLES

	2020 £'000	2019 £'000
Accruals	17,232	5,954
Taxation	211	245
Deferred revenue	1,064	1,334
Amounts due to the parent	7,929	-
Trade and other payables	30	-
	<u>26,466</u>	<u>7,533</u>

The directors consider that the carrying amount of other payables is approximately equal to their fair value.

Interest on amounts owed to the parent is calculated at 5% per annum (2019: 5%) over the average of the net opening and net closing balance. Amounts owed to group undertakings are repayable on demand and the loan balances are not secured.

On 30 June 2020, the Company entered into a loan agreement with Kobalt London Limited whereby all receivables and liabilities owed to or from another subsidiary would ultimately be held with Kobalt London limited.

#### 8. SHARE CAPITAL

	2020 £	2019 £
<b>Called up, allotted and fully paid</b>		
10 ordinary shares of £0.10 each	<u>1</u>	<u>1</u>

In both periods, the number of fully authorised shares was 10. The Company has one class of ordinary shares which carry no right to fixed income.

#### 9. RESERVES

The following describes the nature and purpose of each reserve within equity:

- Share premium – amount subscribed for share capital in excess of nominal value.
- Retained earnings - the Company's results to date. The Company paid £ nil in dividends in 2020.
- Merger reserves – amount transferred in merger

#### 10. RELATED PARTY TRANSACTIONS

Under the exemptions of FRS 101, related party disclosures are not required for transactions with other group companies by virtue of Kobalt Neighbouring Rights Limited being a 100% subsidiary of Kobalt Music Group Limited, for which group financial statements are prepared.

#### 11. ULTIMATE CONTROLLING PARTY

The immediate parent of the Company is Kobalt London Limited and the ultimate controlling party of the Company is Kobalt Music Group Limited, a company registered in the United Kingdom.

The Company's results are included in the consolidated financial statements of Kobalt Music Group Limited, which is the largest and smallest group into which the results are consolidated, and is the largest and smallest undertaking for which group financial statements are prepared and can be obtained from the registered address The River Building, 1 Cousin Lane, London, EC4R 3TE.

#### 12. EVENTS AFTER THE BALANCE SHEET DATE

There were no material post balance sheet events for the Company.