

Kobalt Music Group Limited

Report and Financial Statements

31 March 2003

ERNST & YOUNG



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COMPANIES HOUSE

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Kobalt Music Group Limited

Registered No: 4018752

Directors

W B AAhdritz
J Ekelund
Newmedia Spark Directors Ltd

Secretary

J P Fitzherbert-Brockholes

Auditors

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

Bankers

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

Registered office

33 Glasshouse Street
London
W1B 5DG

Directors' report

The directors present their report and financial statements for the year ended 31 March 2003.

Results and dividends

The loss for the year after taxation amounted to £688,935 (2002 - loss £1,080,495). The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company relates to the provision of administrative services for subsidiary undertakings involved in music publishing.

The company performed in line with directors' expectations during the year.

Directors and their interests

The directors who served during the year were as follows:

W B A Ahdritz
J Ekelund
Newmedia Spark Directors Ltd (appointed 16 April 2002)
T Sten (resigned 27 January 2003)
H E J Borgsved (resigned 21 May 2002)

There were no directors interests requiring disclosure under the Companies Act 1985.

Auditors

Ernst & Young LLP were appointed as auditors during the year. A resolution to reappoint them as auditors will be put to the members at the Annual General Meeting.

By order of the board



J P Fitzherbert-Brockholes
Secretary

31 March 2004

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which 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 year. In preparing those financial statements, the directors are required to:

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

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

Independent auditors' report

to the members of Kobalt Music Group Limited

We have audited the company's financial statements for the year ended 31 March 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 17. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

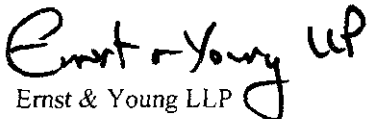
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Independent auditors' report

to the members of Kobalt Music Group Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

6 April 2004

Profit and loss account

for the year ended 31 March 2003

	Notes	2003 £	2002 £
Turnover	2	819,572	407,925
Administrative expenses		1,548,150	1,626,873
Operating loss	3	(728,578)	(1,218,948)
Interest receivable and similar income	6	742	3,345
Interest payable	7	(25,805)	(23,857)
		(25,063)	(20,512)
Loss on ordinary activities before taxation		(753,641)	(1,239,460)
Tax on loss on ordinary activities	8	64,706	158,965
Loss for the financial year		(688,935)	(1,080,495)

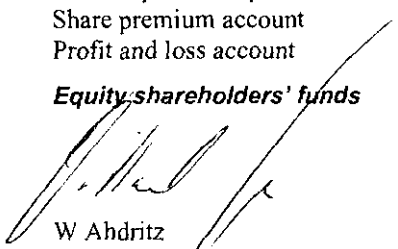
Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss of £688,935 attributable to the shareholders for the year ended 31 March 2003 (2002 - loss of £1,080,495).

Balance sheet

at 31 March 2003

	Notes	2003 £	2002 £
Fixed assets			
Intangible assets	9	165,362	175,036
Tangible assets	10	13,896	4,283
Investments	11	74,170	6,853
		<u>253,428</u>	<u>186,172</u>
Current assets			
Debtors	12	1,548,014	1,451,113
Cash at bank		182,347	192,154
		<u>1,730,361</u>	<u>1,643,267</u>
Creditors: amounts falling due within one year	13	622,823	738,845
Net current assets		<u>1,107,538</u>	<u>904,422</u>
Total assets less current liabilities		<u>1,360,966</u>	<u>1,090,594</u>
Capital and reserves			
Called up share capital	15	138,853	114,573
Share premium account	16	3,252,342	2,317,315
Profit and loss account	16	(2,030,229)	(1,341,294)
Equity shareholders' funds	16	<u>1,360,966</u>	<u>1,090,594</u>



W Ahdriz
Director

31 March 2004

Notes to the financial statements

at 31 March 2003

1. Accounting policies

Basis of preparation

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

Group financial statements

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

Cash flow statement

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

Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

Fixed assets

Fixed assets are initially recorded at cost.

Depreciation

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

Computer equipment - 33% per annum

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

Investments

Fixed asset investments are initially recorded at cost.

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

Intangible fixed assets

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

Software - 16.66% per annum

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

Notes to the financial statements

at 31 March 2003

1. Accounting policies (continued)

Deferred taxation

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

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, *only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned*. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Operating lease agreements

Rentals payable under operating leases are charged in the Profit and Loss Account on a straight line basis over the lease term.

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account, as they become payable in accordance with the rules of the scheme.

2. Turnover

Turnover represents management charges received from the company's subsidiaries, net of value added tax, in respect of management services provided.

An analysis of turnover by geographical market is given below:

	2003 £	2002 £
United Kingdom	695,019	407,925
Europe	124,553	—
	<u>819,572</u>	<u>407,925</u>

Notes to the financial statements

at 31 March 2003

3. Operating loss

This is stated after charging/(crediting):

	2003 £	2002 £
Auditors' remuneration - audit services	10,000	10,000
Depreciation of owned fixed assets	19,352	1,660
Amortisation	33,072	87,518
	<u>52,424</u>	<u>89,178</u>
Operating lease rentals - land and buildings	69,105	75,558
Net loss/(profit) on foreign currency translation	<u>48,669</u>	<u>(56)</u>

4. Staff costs

	2003 £	2002 £
Wages and salaries	593,575	200,000
Social security costs	65,177	-
	<u>658,752</u>	<u>200,000</u>

The monthly average number of employees during the year was as follows:

	2003 No.	2002 No.
Administrative staff	<u>9</u>	<u>5</u>

5. Directors' emoluments

	2003 £	2002 £
Emoluments	<u>95,819</u>	<u>200,000</u>

The emoluments in 2002 related to payments to one director.

6. Interest receivable and similar income

	2003 £	2002 £
Other similar income receivable	<u>742</u>	<u>3,345</u>

7. Interest payable

	2003 £	2002 £
Bank interest payable	304	-
Interest payable	25,501	23,857
	<u>25,805</u>	<u>23,857</u>

Notes to the financial statements

at 31 March 2003

8. Taxation

(a) Tax on loss on ordinary activities

The tax credit is made up as follows:

	2003 £	2002 £
<i>Current tax:</i>		
UK corporation tax	(68,258)	(158,965)
Tax underprovided in respect of previous years	3,552	–
Total current tax (note 8b)	<u>(64,706)</u>	<u>(158,965)</u>

(b) Factors affecting current tax credit

The tax assessed on the loss on ordinary activities for the year is different from the standard rate of corporation tax of 30% (2002 - 30%). The differences are reconciled below:

	2003 £	2002 £
Loss on ordinary activities before taxation	<u>(753,641)</u>	<u>(1,239,460)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002 - 30%)	(226,092)	(371,838)
Adjustments to tax in respect of previous years	3,552	–
Expenses not deductible for tax purposes	76,322	41,354
Depreciation in excess of capital allowances	4,119	25,932
Other timing differences	197	–
Tax losses carried forward	60,132	105,845
Utilisation of tax losses for research and development tax credit	127,983	298,060
Uplift on qualifying research and development expenditure	(42,661)	(99,353)
Research and development tax credit	(68,258)	(158,965)
Total current tax (note 8(a))	<u>(64,706)</u>	<u>(158,965)</u>

(c) Deferred tax

The deferred tax asset not recognised consists of:

	2003 £000	2002 £000
Capital allowances in advance of depreciation	(308)	(910)
Other timing differences	197	–
Tax losses available	249,874	188,439
	<u>249,763</u>	<u>187,529</u>

The deferred tax asset has not been recognised as the recognition criteria as set out in FRS19 have not been met.

Notes to the financial statements

at 31 March 2003

9. Intangible fixed assets

	<i>Software</i> £
Cost:	
At 1 April 2002	262,554
Additions	23,398
At 31 March 2003	<u>285,952</u>
Amortisation:	
At 1 April 2002	87,518
Provided during the year	33,072
At 31 March 2003	<u>120,590</u>
Net book value:	
At 31 March 2003	<u>165,362</u>
At 1 April 2002	<u>175,036</u>

10. Tangible fixed assets

	<i>Computer equipment</i> £
Cost:	
At 1 April 2002	6,566
Additions	28,965
At 31 March 2003	<u>35,531</u>
Depreciation:	
At 1 April 2002	2,283
Provided during the year	19,352
At 31 March 2003	<u>21,635</u>
Net book value:	
At 31 March 2003	<u>13,896</u>
At 1 April 2002	<u>4,283</u>

11. Investments

	<i>Shares in group undertakings</i> £
Cost:	
At 1 April 2002	6,853
Additions	67,317
At 31 March 2003	<u>74,170</u>

Notes to the financial statements

at 31 March 2003

11. Investments (continued)

Holdings of at least 20%

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

<i>Company</i>	<i>Nature of Business</i>	<i>Class of shares</i>	<i>% of shares</i>	<i>Country of registration or incorporation (if not England and Wales)</i>
<i>Subsidiary undertakings</i>				
Diesel 2 Publishing & Management AB	Music publishing	Ordinary	100	Sweden
Kobalt Music Publishing Limited	Music publishing	Ordinary	100	
Kobalt Music Services Limited	Music publishing	Ordinary	100	
Kojam Music AB *	Music publishing	Ordinary	100	Sweden
Kojam Music Limited	Music publishing	Ordinary	100	
Kollector Limited	Music publishing	Ordinary	100	
Monumental Songs AB**	Music publishing	Ordinary	100	Sweden
Kobalt Music Publishing (Italia) Limited	Music publishing	Ordinary	100	
Kobalt Music Administration Limited	Music publishing	Ordinary	100	

* Held by Kojam Music Limited

** Held by Diesel 2 Publishing & Management AB

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

	<i>Aggregate capital and reserves</i>	<i>Profit/(loss) for the year</i>
	<i>£</i>	<i>£</i>
Kojam Music Limited	(397,861)	(95,164)
Diesel 2 Publishing & Management AB	344,264	(89,705)
Kobalt Music Publishing Limited	(4,560)	(965)
Kobalt Music Services Limited	(519,728)	(398,306)
Kojam Music AB*	6,316	(1,164)
Kollector Limited	1	-
Monumental Songs AB**	17,965	(9,429)
Kobalt Music Publishing (Italia) Limited	1	-
Kobalt Music Administration Limited	1	-

12. Debtors

	<i>2003</i>	<i>2002</i>
	<i>£</i>	<i>£</i>
Trade debtors	-	247
Amounts owed by group undertakings	932,563	994,352
Corporation tax recoverable	223,258	158,965
Other debtors	392,193	297,549
	<u>1,548,014</u>	<u>1,451,113</u>

Notes to the financial statements

at 31 March 2003

13. Creditors: amounts falling due within one year

	2003 £	2002 £
Bank overdrafts	8,467	51,794
Trade creditors	112,968	208,815
Amounts owed to group undertakings	316,984	381,194
Other taxation and social security	63,743	23,273
Other creditors	120,661	73,769
	<u>622,823</u>	<u>738,845</u>

14. Commitments under operating leases

At 31 March 2003 the company had annual commitments under non-cancellable operating leases as set out below.

	<i>Land and buildings</i>	
	2003 £	2002 £
Operating leases which expire:		
Within one year	<u>78,000</u>	<u>75,000</u>

15. Share capital

	2003 £	<i>Authorised</i> 2002 £
Ordinary shares of £0.05 each	<u>250,000</u>	<u>100,000</u>

	<i>Allotted, called up and fully paid</i>			
	No.	2003 £	No.	2002 £
Ordinary shares of £0.05 each	2,777,063	<u>138,853</u>	2,291,463	<u>114,573</u>

On 12 November 2002, 225,000 ordinary shares of 5p each were issued with an aggregate nominal value of £11,250. The consideration received by the company for these shares was £450,000.

On 27 March 2003, 260,600 ordinary shares of 5p each were issued with an aggregate nominal value of £13,030. The consideration received by the company for these shares was £547,260.

Notes to the financial statements

at 31 March 2003

16. Reconciliation of shareholders' funds and movement on reserves

	Share capital £	Share premium account £	Profit and loss account £	Total share- holders' funds £
At 1 April 2001	2	—	(260,799)	(260,797)
Loss for the year	—	—	(1,080,495)	(1,080,495)
New equity share capital subscribed	114,571	2,428,167	—	2,542,738
Share issue costs	—	(110,852)	—	(110,852)
At 31 March 2002	114,573	2,317,315	(1,341,294)	1,090,594
Loss for the year	—	—	(688,935)	(688,935)
New equity share capital subscribed	24,280	972,980	—	997,260
Share issue costs	—	(37,953)	—	(37,953)
At 31 March 2003	138,853	3,252,342	(2,030,229)	1,360,966

17. Related party transactions

Debtors

Amounts owed by group undertakings are as follows:

	2003 £	2002 £
Kojam Music Limited	629,183	860,075
Kobalt Music Publishing Limited	14,725	3,936
Kobalt Music Services Limited	469,693	130,341
Kollector Limited	15	—
Monumental Songs AB	1,182	—
Kojam Music AB	17,765	—

Creditors

Included in trade creditors are balances with related parties as shown below:

	2003 £	2002 £
Spark Services Limited, a company controlled by a shareholder	42,686	—

Amounts owed to group undertakings are as follows:

	2003 £	2002 £
Diesel 2 Publishing & Management AB	316,982	381,194
Kobalt Music Administration Limited	1	—
Kobalt Music Publishing (Italia) Limited	1	—

Notes to the financial statements

at 31 March 2003

17. Related party transactions (continued)

Profit and loss transactions

The following related parties transactions arose in the year:

		2003 £	2002 £
J Ekelund, a director	Legal and professional work	2,999	9,353
T Sten, a director	Consultancy fees	14,270	15,000
Kobalt Music Publishing Limited*	Management charge received	—	3,672
Kobalt Music Services Limited*	Management charge received	466,351	128,918
Kojam Music Limited*	Management charge received	228,668	275,335
Spark Services Limited, a company controlled by a shareholder	Rent and Office Services paid	80,889	—
Diesel 2 Publishing & Management AB*	Management charge received	124,553	—

*Subsidiary undertakings