Karmarama Comms Limited

Directors' report and financial statements

Registered number 07628831

Year ended 30 April 2013

Contents

Directors' report

The directors present their directors' report and financial statements for the year ended 30 April 2013

Principal activities

The Company's principal activity is providing advertising and public relations services

Business review

The Company delivered an adjusted EBITDA of £1 1m *(2012 £1 4m)* for the period ending 30 April 2013, with additional £nil *(2012 £0 2m)* of EBITDA generated in the pre-acquisition period

In the year to April 2013, a number of leading industry professionals were hired to strengthen our capabilities in Retail, Planning, Digital, Creative and Data These hires have helped position the Company to be able to win and service clients of a scale well beyond the capabilities of the original legacy businesses Also, further significant investment took place around the relocation of the various businesses from their four previous locations to single unique premises in Clerkenwell, central London This involved the payment of double rents for six months whilst the new offices were fitted out

The net effect of the above developments, whilst essential for laying the foundations of the future growth of the business as one of London's leading independent integrated marketing services groups, had a major temporary impact on our margins This was further compounded by one-off restructuring charges associated with the merger

The above developments took place against challenging trading conditions The Company traded in a very resilient manner, with significant client wins such as B&Q, Blinkbox, Clydesdale and Costa enabling the agency to feature consistently in the top 10 of industry new business league tables

Financial instruments

The Company's principal financial instruments comprise bank balances, an overdraft facility, trade creditors and trade debtors The main purpose of these instruments is to ensure there is always a suitable amount of working capital available for the Group to utilise

Trade debtors are managed in respect of credit and cash flow risk by the implementation and adherence to robust credit control procedures

Liquidity risk is managed by ensuring sufficient funds are available to meet amounts when they fall due

Proposed dividend

The directors do not recommend the payment of a dividend *(2012 £Nil)*

Directors

The directors who held office during the period were as follows

B Bilboul

D M Buonaguidi

S McGrath

N Mendelsohn – resigned 31 May 2013

A Silver – resigned 20 June 2013

C B L Watson

Directors' report *(continued)*

Employees

The company employed an average of 69 *(2012 63)* people during the period

Political and charitable contributions

The Company made no (2012 nil) political donations during the period Charitable donations of £2,095 (2012 £2,500) were made during the period

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself of any relevant audit information and to establish that the Company's auditor is aware of that information

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the board

C B L Watson
Group Chairman

Farringdon Place
20 Farringdon Road
London
United Kingdom
EC1M 3HE

30 October 2013

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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)

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 judgments and estimates that are reasonable and prudent,
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG

Independent auditor's report to the members of Karmarama Comms Limited

We have audited the financial statements of Karmarama Comms Limited for the year ended 30 April 2013, set out on pages 6 to 17 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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 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 auditor

As explained more fully in the Statement of directors' responsibilities on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www frc org uk/auditscopeukprivate

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 April 2013 and of its loss for the period then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements

Independent auditor's report to the members of Karmarama Comms Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Adrian Wilcox
(Senior Statutory Auditor)

For and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB
8 November 2013

Profit and Loss Account
for the year ending 30 April 2013

	Note	2013 £	2012 £
Turnover	*1*	**19,543,350**	17,789,077
Cost of sales		**(10,050,865)**	(9,963,336)
Gross profit		**9,492,485**	7,825,741
Administrative Expenses – *operating*		**(8,401,399)**	(6,392,458)
Administrative Expenses – *depreciation*		**(81,734)**	(41,324)
Administrative Expenses – *amortisation*		**(978,306)**	(896,781)
Administrative Expenses – *exceptional items*		**(100,000)**	(96,203)
Total Administrative expenses		**(9,561,439)**	(7,426,766)
Operating (loss)/profit	*2*	**(68,954)**	398,975
EBITDA before exceptional items*		**1,091,086**	1,433,283
EBIT before exceptional items**		**31,046**	495,178
Interest receivable and similar income		**3,424**	3,414
Interest payable and similar charges	*5*	**(136,722)**	(152,455)
(Loss)/profit on ordinary activities before taxation		**(202,252)**	249,934
Tax on (loss)/profit on ordinary activities	*6*	**25,162**	43,684
(Loss)/profit for the financial period	*13*	**(177,090)**	293,618

All results arise from continuing operations

The company has no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented

The notes on pages 8 to 17 form part of these financial statements

*EBITDA defined as earnings before interest, tax, depreciation and amortisation

**EBIT defined as earnings before interest and tax

Balance Sheet
at 30 April 2013

	Note		2013		2012
			£		**£**
Fixed assets					
Intangible assets	*7*		**7,907,977**		8,886 284
Tangible assets	*8*		**113,116**		194,640
			8,021,093		9 080,924
Current assets					
Debtors	*9*	**6,481,315**		4,085,570	
Cash at bank		**2,943,863**		2,061,144	
		9,425,178		6,146,714	
Creditors amounts falling due within one year	*10*	**(6,479,331)**		(4,220,331)	
Net current assets			**2,945,847**		1,926,383
Total assets less current liabilities			**10,966,940**		11,007,307
Creditors amounts falling due after more than one year	*11*		**(6,218,606)**		(6,081,883)
Net assets			**4,748,334**		4,925,424
Capital and reserves					
Called up share capital	*12*		**10,000**		10 000
Share premium account	*13*		**4,621,806**		4,621,806
Profit and loss account	*13*		**116,528**		293,618
Shareholders' funds	*14*		**4,748,334**		4,925,424

The notes on pages 8 to 17 form part of these financial statements

These financial statements were approved by the board of directors on 30 October 2013 and were signed on its behalf by

C B L Watson
Group Chairman

Company registered number 07628831

Notes

forming part of the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its results are included in the published consolidated financial statements of its ultimate parent Company Karma Communications Holdings Limited, which are publicly available (see note 17)

As the Company is a wholly owned subsidiary of Karma Communications Holdings Limited, the ultimate parent company, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group

The Company was incorporated on 10 May 2011 and commenced trading on 26 May 2011 when the trade and assets were purchased from Karmarama LLP and Kaper LLP (Note 16) The comparative profit and loss period presented as 2012 is the 11 month period from 26 May 2011 to 30 April 2012

Going concern

The Company's accounts show a loss after tax for the period from 1 May 2012 to 30 April 2013 of £177,090 *(2012 profit of £293,618)* and a net assets position of £4,748,334 *(2012 £4,925,424)*

The directors have considered the factors that impact the Company's future development, performance, cash flows and financial position along with Company's current liquidity in forming their opinion on the going concern basis

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions is capitalised Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life

The estimated useful life of the Company's goodwill is 10 years

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Leasehold improvements	-	over the life of the lease
Fixtures and fittings	-	25% straight line
Computer equipment	-	25% to 33% straight line

Notes *(continued)*

1 Accounting policies *(continued)*

Impairment of fixed assets and goodwill

The carrying amounts of the Company's goodwill and assets are reviewed for impairment annually or when events or changes in circumstances indicate that the carrying amount may not be recoverable If any such indication exists, the asset's recoverable amount is estimated

An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount Impairment losses are recognised in the profit and loss account

Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease

Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

Work in progress

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover

Taxation

Taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse

Deferred tax assets and liabilities are not discounted

Interest bearing borrowings

Immediately after issue debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs The finance cost of the debt is allocated to periods over the term of the debt at a constant rate on the carrying amount

Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts Retainer fee income is recognised on a straight line basis over the term of the contract

Project income and associated costs are recognised on a percentage completion basis in accordance with UITF 40

Turnover is generated on geographical sales from the provision of advertising and public relations services as follows

	UK £	Europe £	Rest of World £	Total £
2013	**18,518,725**	**792,799**	**231,826**	**19,543,350**
2012	17,281,616	442,364	65,097	17,789,077

Notes *(continued)*

2 Operating (loss)/ profit

The operating (loss)/ profit is stated after charging

	2013	2012
	£	£
Amortisation- intangible fixed assets	978,307	896,781
Depreciation of tangible fixed assets	81,734	101,433
Operating lease rentals	13,477	192,708
Exceptional Items	100,000	96,203
Auditor's Remuneration		
Audit of these financial statements	12,400	12,000

Auditor s remuneration with respect to non-audit services has been disclosed in the consolidated financial statements of Karma Communications Holdings Limited, the ultimate parent company

Exceptional items are one off costs relating to redundancy costs This amount was paid post year end

3 Staff costs

Staff Costs, including Directors' remuneration, were as follows

	2013	2012
	£	£
Wages and Salaries	5,456,993	3,007,351
Social Security Costs	567,575	430,163
Pension Costs	73,485	5,202
	6,098,053	3,442,716

The average monthly number of employees, including the directors, during the period was as follows

	2013	2012
	No	No
Client Services	58	57
Administrative and Other	11	6
	69	63

4 Directors' remuneration

	2013	2012
	£	£
Aggregate emoluments	-	513,333

The aggregate emoluments of the highest paid director were £Nil *(2012 £128,333)* and pension contributions paid on his behalf were £nil

There are no directors for whom retirement benefits are accruing under a personal pension plan in respect of qualifying services

Notes *(continued)*

5 Interest payable

	2013	2012
	£	£
Finance costs on intercompany loans	**136,722**	152,455

6 Taxation

Analysis of credit in period	2013	2012
	£	£
UK Corporation Tax		
UK Corporation tax on profit for the period	-	-
Total current tax charge	-	-
Deferred tax		
Origination and reversal of timing differences	(9,771)	(43,684)
Adjustments in respect of prior periods	(17,960)	-
Effect of tax rate change on opening balance	2,569	-
Total deferred tax credit	(25,162)	(43,684)
Tax credit on Profit on ordinary activities	(25,162)	(43,684)

Factors affecting Tax Charge for the period

The tax assessed for the period is higher (2012 Lower) than the standard rate of corporation tax in the UK of 23 92% *(2012 25 83%)* The differences are explained below

	2013	2012
	£	£
Profit on Ordinary Activities Before Tax	**(202,252)**	249,934
Profit on Ordinary Activities at standard rate of corporation tax in the UK of 23 92% *(2011 25 83%)*	**(48,379)**	64,558
Income not taxable for tax purposes	-	(1,745)
Expenses not deductible for tax purposes	**263,533**	279,180
Depreciation in excess of capital allowances	**19,490**	33,212
Group Relief surrendered/(claimed)	**(225,314)**	(389,305)
Other short term timing differences	**(9,330)**	14,100
Current tax charge for the period	-	-

Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013

This will reduce the Company's future current tax charge accordingly and further reduce the deferred tax asset at 30 April 2013 (which has been calculated based on the rate of 23% substantively enacted at the balance sheet date)

Notes *(continued)*

7 Goodwill

	£
Cost	
At beginning of period	9,783,065
At end of period	9,783 065
Amortisation	
At beginning of period	896,781
Charge for the period	978,307
At end of period	1,875,088
Net Book Value	
At 30 April 2013	**7,907,977**
	8,886 284

Goodwill represents the consideration paid over the fair value of the net assets acquired of Karmarama LLP and Kaper LLP on 26 May 2011 (note 16).

Goodwill is amortised over a period of 10 years which, in the opinion of the directors, reflects the useful economic life of the assets acquired as part of this transaction

Goodwill is specifically allocated to the Group of Cash Generating Units ("CGUs") that led it to arise as a result of business combinations The Group of Cash Generating Units is defined at the level of operating segments

Impairment tests on goodwill are performed for each operating segment annually or when indicators for impairment are identified The impairment charge is the amount by which the carrying value exceeds the recoverable value The recoverable value is the higher of the fair value less cost to sell and the value in use

The discounted cash flow ('DCF) method is used to determine the value in use In the DCF method the estimated future cash flows are discounted to their present value using a discount rate, determined as the Group's after-tax weighted average cost of capital that reflects the current market assessment of the time value of money and the risk of the asset The estimated cash flows for the coming year are based on the annual budget approved by the Board of the parent company

Cash flows for a subsequent four-year period are extrapolated using expected annual revenue growth rates for each CGU and EBITDA margins For all businesses a 2% short- term revenue growth rate was used while EBITDA margins are expected to stay flat

A growth rate of 2% has then been applied beyond the formal five-year period, into perpetuity with the value-in-use calculation based on an extrapolation of the budgeted cash flow for future years The after-tax discount rate applied in discounting projected cash flows to net present value is 8 6%

The review process resulted in no impairment of goodwill for the current year (2012 £nil) recognised in the Profit and Loss Account

A sensitivity analysis was performed on all CGUs, by changing the parameters that have the biggest impact on the recoverable amounts the after-tax discount rate and the long-term growth rate No impairments to the goodwill were identified in this analysis

Notes *(continued)*

8 Tangible Fixed assets

	Fixtures and fittings	Computer equipment and software	Total
	£	£	£
Cost			
At beginning of period	231,180	326,430	557,139
Additions	-	17,142	17,142
Disposals	-	(20,172)	(20 172)
At end of year	**231,180**	**320,402**	**554,580**
Depreciation			
Accumulated depreciation at acquisition date	161,548	201,422	362,970
Charge for period	3,928	77,609	81,537
On disposals	-	(3,243)	(3,243)
At end of year	**165,476**	**275,788**	**441,264**
Net book value			
At 30 April 2013	**65,704**	**44,622**	**113,116**
At 1 May 2012	69,632	125,008	194,640

Notes *(continued)*

9 Debtors

	2013 £	2012 £
Trade Debtors	**3,259,759**	2,011,719
Amounts owed by group undertakings	**2,782,550**	1,457,200
Work in progress	**161,787**	107,935
Other Debtors and Prepayments	**171,108**	185,872
Accrued Income	**37,265**	279,160
Deferred tax asset (note 6)	**68,846**	43,684
	6,481,315	4,085,570

10 Creditors: Amounts Falling Due within One Year

	2013 £	2012 £
Trade Creditors	**772,725**	530,390
Amounts owed to group undertakings	**2,170,299**	1,279,178
Other Creditors	**1,125,736**	747,708
Accruals and deferred income	**2,410,571**	1,663,055
	6,479,331	4,220,331

11 Creditors: Amounts falling due after more than one year

	2013 £	2012 £
Intercompany loan	**6,218,606**	6,081,883

The Company has an intercompany loan with K Comms Group Limited for £5,929,106, which is redeemable in 2021

Included in the figure of £6,218,606 is accrued interest of £289,500 *(2012 £152,777)* Interest is charged at LIBOR + 1% K Comms Group Limited does not have any intention to reclaim either the loan value or interest in the foreseeable future not less than 12 months from the date of signing the audit report

12 Share Capital

	2013 £	2012 £
Allotted, Called up and Fully Paid		
10,000 *(2012 10,000)* Ordinary Shares of £1 each	**10,000**	10,000
	10,000	10 000

Notes *(continued)*

13 Reserves

	Share Premium Account	Profit and loss account
	£	£
At beginning of period	4,621 806	293,618
Loss for the period	-	(177,090)
At end of period	**4,621,806**	**116,528**

14 Reconciliation of Movement in Shareholders' Funds

	2013
	£
Opening shareholders' funds	4,925,424
Loss for the period	(177,090)
Closing Shareholders' funds	**4,748,334**

15 Operating lease commitments

At 30 April 2013 the Company had annual commitments under non-cancellable operating leases as follows

	Land and Buildings 2013	Other 2013	Land and Buildings 2012	Other 2012
Operating leases which expire	£	£	£	£
Within 1 year	-	-	59,017	254
Between 2 and 5 years	-	13,466	-	13,466
Total	-	13,466	59,017	13,720

Notes *(continued)*

16 Acquisitions

On 26 May 2011 the Company acquired the trade and assets of Karmarama LLP and Kaper LLP The resulting goodwill of £9,783,065 was capitalised and will be written off over 10 years (see note 7) Goodwill is amortised over a period of 10 years which, in the opinion of the directors, reflects the useful economic life of the assets acquired as part of this transaction

	Karmarama LLP £	Kaper LLP £	Book value £
Fixed assets			
Tangible	250,362	7,531	257,893
Current assets			
WIP	245,243	46,982	292,225
Debtors	2,374,907	87,068	2,461,975
Cash	757,327	68,469	825,796
Total assets	3,627,839	210,050	3,837,889
Liabilities			
Creditors	2,854,047	205,995	3,060,042
Total liabilities	2 854,047	205,995	3,060,042
Net assets	773,792	4,055	777,847
Purchase consideration and costs of acquisition			
Share Capital			10,000
Share Premium			4,621,806
Loan Notes			5,929,106
Total Consideration			**10,560,912**
Goodwill recognised on acquisition			**9,783,065**

On the date of acquisition, there were no differences between the book value and the fair value of assets and liabilities acquired

Notes *(continued)*

17 Related Party Disclosures

The company is a subsidiary undertaking of Karma Communications Holdings Limited, a company incorporated in Great Britain from 14 April 2011 The consolidated financial statements of this group are available to the public and may be obtained from Farringdon Place, 20 Farringdon Road, London, UK, EC1M 3HE

As at 30 April 2013, the majority shareholder of Karma Communications Holdings Limited is Phoenix Equity Nominees Limited Phoenix Equity Nominees Limited is a nominee company that holds shares on behalf of the Limited Partners that constitute Phoenix Equity Partners 2010 LP, and co-investors that constitute Phoenix Equity Partners Limited 2010 GP LP These are private collective investment schemes advised by Phoenix Equity Partners 2010 Guernsey Limited, the ultimate controlling party for Karma Communications Holdings Group and its subsidiaries

The accounts of Phoenix Equity Partners 2010 Guernsey Limited (which do not reflect the consolidation of the group) are available from the Company Secretary at 1 Royal Plaza, Royal Avenue, St Peter Port, Guernsey Channel Islands, GY1 2HL

18 Post balance sheet events

There were no material post balance sheet events