K Comms Group Limited

Directors' report and financial statements

Registered number 07632340

Year ended 30 April 2014

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Contents

Directors' report

The directors present their directors' report and financial statements for the year ended 30 April 2014.

Principal activities

The Company's principal activity is that of a holding Company.

Business review

The Company was incorporated on 12 May 2011 and has operated as a holding Company for the period ended 30 April 2014.

Financial instruments

The Company's principal financial instruments comprise loans owed by group companies, an overdraft facility, loans and loan notes owed to group companies.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors

The directors who held office in the period were as follows:

N S Mendelsohn (resigned 31 May 2013)

S McGrath

D M Bounaguidi

B Bilboul

C B L Watson (Resigned 4 November 2014)

A Silver (resigned 20 June 2013)

I M Scoffield (appointed 13 May 2014)

Employees

There were no employees directly employed by the Company during the year ended 30 April 2014. *(2013: Nil).*

Political contributions

The Company made no political donations or incurred any political expenditure during the year.

Directors' report *(continued)*

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 aware 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

I M Scoffield
Group Chief Financial Officer

Farringdon Place
20 Farringdon Road
London
United Kingdom
EC1M 3HE

26 January 2015

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 Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice).

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 K Comms Group Limited

We have audited the financial statements of K Comms Group Limited for the year ended 30 April 2014, set out on pages 6 to 14. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities 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 2014 and of its loss for the year 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 year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of K Comms Group 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
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

Adrian Wilcox (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB
29 January 2015

Profit and loss account

for the year to 30 April 2014

	Note	**2014**	2013
		£	£
Turnover		**-**	-
Cost of sales		**-**	-
Gross profit		**-**	-
Administrative expenses		**(4,036)**	(3,933)
Operating loss	*2*	**(4,036)**	(3,933)
Interest receivable and similar income	*3*	**173,818**	206,443
Interest payable and similar charges	*4*	**(1,167,351)**	(1,093,717)
Loss on ordinary activities before taxation		**(997,569)**	(891,207)
Tax on loss on ordinary activities	*5*	**-**	-
Loss for the financial year	*11*	**(997,569)**	(891,207)

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 14 form part of these financial statements.

Balance sheet
At 30 April 2014

	Note	**2014**	2013
		£	£
Fixed assets			
Investments	*6*	**6,680,631**	6,680,631
Non current assets			
Debtors	*7*	**9,563,504**	9,389,686
Creditors: amounts falling due within one year	*8*	**(11,670)**	(7,633)
Net current liabilities		**(11,670)**	(7,633)
Total assets less current liabilities		**16,232,465**	16,062,684
Creditors: amounts falling due after more than one year	*9*	**(18,865,921)**	(17,698,571)
Net Liabilities		**(2,633,456)**	(1,635,887)
Capital and reserves			
Called up share capital	*10*	**1**	1
Profit and loss account	*11*	**(2,633,457)**	(1,635,888)
Shareholders' deficit	*12*	**(2,633,456)**	(1,635,887)

The notes on pages 8 to 14 form part of these financial statements.

The financial statements were approved by the board of directors on 26 January 2015 and were signed on its behalf by:

I M Scoffield

I M Scoffield

Group Chief Financial Officer

Company registered number: 07632340

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.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present financial information about the Company as an individual undertaking and not about its group. The Company is a wholly owned subsidiary, and is included in the consolidated financial statements of Karma Communications Holdings Limited which are publicly available (see note 13).

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.

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 13).

Going concern

The Company's accounts show a loss after tax for the period from 01 May 2013 to 30 April 2014 of £997,569 *(2013: £891,207),* net current liabilities of £11,670 *(2013:£ 7,633)* and a net liabilities position of £2,633,456 *(2013:£ 1,635,887).*

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.

The Company has support from the ultimate parent company, Karma Communications Holdings Limited, which has confirmed that there is no intention to ask for repayment of amounts due to itself and other group companies in the foreseeable future, and not less than 12 months from the date of signing the audit report.

Investments

Investments held as fixed assets are stated at cost less provision for impairment or permanent diminution of value.

Impairment of investments

The carrying amounts of the Company's investments 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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Taxation

Taxation is based on the profit or loss for the year 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.

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

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.

Notes *(continued)*

2 Operating loss

	2014	2013
	£	£
The operating loss is stated after charging		
Auditor's Remuneration		
Audit of these financial statements	**1,133**	1,100

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.

During the period, no directors received any emoluments for their services as director of K Comms Group Limited.

There are no employees directly employed by K Comms Group Limited in the period.

3 Interest receivable

	2014	2013
	£	£
Interest receivable on group loans	**173,818**	206,443

4 Interest payable

	2014	2013
	£	£
Interest payable on loan notes	**992,889**	886,508
Interest payable on intercompany loans	**174,462**	207,209
	1,167,351	1,093,717

5 Taxation

Analysis of charge in period	2014	2013
	£	£
UK Corporation Tax		
UK Corporation tax on loss for the period	-	-
Total current tax	-	-
Total deferred tax	-	-
Tax on loss on ordinary activities	-	-

Notes *(continued)*

5 Taxation (continued)

The tax assessed for the period is higher (2013:higher) than the standard rate of corporation tax in the UK of 22.84% (2013: 23.92%). The differences are explained below.

	2014	2013
	£	£
Loss on Ordinary Activities Before Tax	(997,569)	(891,206)
Loss on Ordinary Activities at standard rate of corporation tax in the UK of 22.84% (2013:23.92%)	(227,801)	(213,157)
Group Relief surrendered	227 801	213,157
Current tax charge for the period	-	-

Factors that may affect future current and total tax charges
On 21 March 2012, the Chancellor announced a reduction in the main rate of UK corporation tax from 24% to 23% with effect from 1 April 2013. On 2 July 2013, further reductions in the UK corporation tax rate from 23% to 21% with effect from 1 April 2014 and then from 21% to 20% with effect from 1 April 2015 were substantively enacted.

The deferred tax balance at 30 April 2014 has been calculated based on the rate of 20% and the effect of this rate reduction as at 31 April 2014 has been included in the figures above.

6 Investments

	Investments in subsidiaries £
Cost	
At beginning of period	6,680,631
At 30 April 2014	6,680,631
Net book value	
At 30 April 2014	**6,680,631**

K Comms Group Limited subscribed to 100% of the ordinary share capital of Karmarama Comms Limited by the issue of £4,631,806 consideration loan notes, and a cash payment of £1.

K Comms Group Limited purchased 100% of the ordinary share capital of Kream Comms Limited by the issue of £2,015,635 consideration loan notes, and a cash payment of £1.

Impairment tests on investments are performed for each investment 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

Notes *(continued)*

6 Investments *(continued)*

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 9.5%.

The review process resulted in no impairment of investments for the current year (2013: 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 investments were identified in this analysis.

The subsidiary undertakings at 30 April 2014 were:

	Country of incorporation	**Holding**	**Principal Activity**	**Proportion of shares held**	**Capital and reserves**	**Loss for the period**
Karmarama Comms Limited	United Kingdom	Ordinary shares	Advertising and PR	100%	£7,663,774	£2,915,440
Kream Comms Limited	United Kingdom	Ordinary shares	Production	100%	£2,120,884	£(74,536)

7 Debtors: amounts receivable after more than one year

	2014	2013
	£	£
Intercompany loans	**9,563,504**	9,389,686
	9,563,504	9,389,686

The Company has lent £5,929,106 to Karmarama Comms Limited, which is redeemable in 2021. Interest on this intercompany loan is charged at LIBOR + 1% and included in the £9,563,504 *(2013: £*9,389,686*)* is accrued interest receivable of £404,617 *(2013: £*289,500*).*

The Company has lent £3,023,453 to Kream Comms Limited, which is redeemable in 2021. Interest on this intercompany loan is charged at LIBOR + 1% and included in the £9,563,504 *(2013: £*9,389,686*)* is accrued interest receivable of £206,328 *(2013: £147,627).*

8 Creditors: amounts falling due within one year

	2014	2013
	£	£
Accruals	**11,670**	7,633
	11,670	7,633

Notes *(continued)*

9 Creditors: amounts falling due after more than one year

	2014	2013
	£	£
Loan notes	**9,266,962**	8,274,074
Intercompany loan	**9,598,959**	9,424,497
	18,865,921	17,698,571

Loan notes of £6,647,440 owed to Karma Communications Group Limited are repayable in 2021. Interest on the loan notes is charged at 12%, and included in the £9,266,962 *(2013: £8,274,074)* is accrued interest of £2,619,522 *(2013: £1,626,634)*.

The company has an intercompany loan owed to Karma Communications Group Limited for £8,985,749, which is redeemable in 2021. Interest on the loan is charged at LIBOR + 1% and included in the £9,598,959 *(2013: £9,424,497)* is accrued interest of £613,210 *(2013: £438,748)*.

Karma Communications Group Limited do not have any intention to reclaim the loan value or interest in the foreseeable future not less than 12 months from the date of signing the audit report.

10 Called up share capital

	2014	2013
	£	£
Allotted, called up and fully paid		
1 Ordinary share of £1 each	**1**	1

11 Reserves

	Profit and loss account
	£
At beginning of period	**(1,635,888)**
Loss for the period	**(997,569)**
At end of period	**(2,633,457)**

12 Reconciliation of movement in shareholders' deficit

	2014	2013
	£	£
Opening shareholders' deficit	**(1,635,887)**	(744,680)
Loss for the period	**(997,569)**	(891,207)
Share capital issued	**-**	-
Closing shareholders' deficit	**(2,633,456)**	(1,635,887)

Notes *(continued)*

13 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 2014, 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.

14 Post balance sheet events

There were no post balance sheet events.