



HIPGNOSIS

Hipgnosis Songs Fund Limited

Interim Report and Condensed Consolidated Financial Statements
For the period from 8 June 2018 (Date of Incorporation) to 30 September 2018

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Corporate Summary

Investment Objective and Policy

The Company's investment objective is to provide Shareholders with an attractive and growing level of income, together with the potential for capital growth, from investment in a portfolio of Songs and their associated musical intellectual property rights. The portfolio will be acquired by investing in Catalogues of Songs from well-known songwriters and recording artists; however, each Song will be considered to be a separate asset.

The Company will seek to acquire 100 per cent. of a songwriter's copyright interest in each Song, which would comprise their writer's share, their publisher's share and their performance rights. In appropriate cases however, the Company may not acquire all three elements of the songwriter's interest. The Company will acquire interests in Songs which are sole authored or co-authored. The Company may also acquire interests in Songs jointly with another purchaser.

The Company will, directly or indirectly via collection agents, enter into licensing agreements, under which the Company will receive payments attributable to the copyright interests in the Songs which it owns. Such payments may take the form of royalties, licence fees and/or advance payments, including:

- mechanical royalties – when a copy of a Song is made, whether physical (e.g. CDs, DVDs) or digital (e.g. permanent downloads, streaming, webcast);
- performance royalties – when a Song is performed live or broadcast on TV or Radio, or when a song is streamed online; and
- synchronisation fees – when a Song is used in another form of media (e.g. movie, TV show, video game, advertisement).

The Company will focus on delivering income growth and capital growth by pursuing efficiencies in the collection of payments and active management of the Songs it owns.

The Company may acquire Songs for consideration consisting of cash, shares or a combination of cash and shares, and payment of part of the consideration may be on deferred terms.

Whilst the Company does not intend to sell the Songs it owns, it may make disposals of Songs where it considers such a disposal to be in the best interests of Shareholders.

Structure

The Company is an investment company limited by shares, registered and incorporated in Guernsey under the Companies Law on 8 June 2018. The Company is registered with the Guernsey Financial Services Commission under the Registered Collective Investment Scheme Rules 2015 and the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended. The Company is not authorised or regulated by the Financial Conduct Authority.

The Company will make, and subsequently manage, its investments directly or indirectly through a number of wholly owned subsidiary companies incorporated in Guernsey or the UK.

Corporate Summary continued

Investment Process

The Investment Adviser has been appointed by the Board to source Songs and provide recommendations to the Board on acquisition and disposal strategies. The Investment Adviser is also responsible for managing and monitoring royalty and/or fee income due to the Company from its copyrights and collection agents, and developing strategies to maximise the earning potential of the Songs in the portfolio through improved placement and coverage of Songs.

The Investment Adviser was founded by Merck Mercuriadis, former manager of globally successful recording artists and hit songwriters. The Investment Adviser has assembled an advisory board of highly successful music industry experts which include award winning members of the artist, songwriter, publishing, legal, financial, recorded music and music management communities, all with in-depth knowledge of music publishing and access to a significant network of relationships in the music industry.

The Board has formed a Portfolio Committee which will approve all purchases of Catalogues of Songs, and an Asset Management Committee which will consider the ongoing management and revenue maximisation of the Catalogues of Songs. These committees are chaired by Paul Burger and Andrew Sutch respectively.

AIC

The Company is a member of the Association of Investment Companies and complies with the AIC Code.

Website

The Company's website, which can be found at www.hipgnosissongs.com, includes information on the Company, such as the prospectus and announcements.

Highlights

Highlights

The Company completed an IPO on 11 July 2018, issuing 202,176,800 Ordinary Shares, raising £202,176,800 before launch costs, and was admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange.

On 11 July 2018 the Company acquired a 75% interest in a Catalogue from Terius Youngdell Nash, better known by his stage name The-Dream. The Catalogue comprises 302 Songs in total.

Post period end

On 16 November 2018 the Company acquired a 100% interest in a Catalogue from Jason Boyd, better known by his stage name Poo Bear. The Catalogue comprises 214 Songs in total.

On 28 November 2018 the Company acquired a 37.5% interest in the Bernard Edwards Catalogue. The Catalogue comprises 290 Songs in total.

On 7 December 2018 the Company acquired a 100% interest in a Catalogue from TMS, an English songwriting and music production team comprised of Thomas 'Froe' Barnes, Benjamin Kohn and Peter 'Merf' Keller. The Catalogue comprises 121 Songs in total.

Following these acquisitions, the Company has invested £40.7 million of the IPO proceeds.

Dividends

The Company announced its first interim dividend for the period from Admission to 30 September 2018 of 0.50 pence per Ordinary Share. The dividend was paid to Shareholders, on the register at the close of business on 2 November 2018, on 29 November 2018.

The Company is targeting a dividend for the first 12 months following Admission of 3.5 pence per Ordinary Share and intends to pay interim quarterly dividends in November, February, May and August of each year.

Key Metrics

	2018
	£
IFRS NAV ⁽¹⁾ as at 30 September	197,484,818
Adjustments for revaluation of Catalogues of Songs to fair value	1,945,636
Reversal of amortisation	202,243
Operative NAV ⁽²⁾ as at 30 September	199,632,697
IFRS NAV ⁽¹⁾ per Share as at 30 September	97.68p
Operative NAV ⁽²⁾ per share as at 30 September	98.74p
Share price at 30 September	1.07
Total comprehensive loss for the period ended 30 September	(736,322)
Basic Earnings per Share for the period ended 30 September	(0.36)

⁽¹⁾ Catalogues of Songs are classified as intangible assets and measured at amortised cost or cost less impairment in accordance with IFRS.

⁽²⁾ The Directors are of the opinion that an Operative NAV provides a more meaningful performance measure as the value of Catalogues of Songs is based on fair values produced by an Independent Valuer.

Chairman's Statement

Introduction

I am pleased to present the Company's first Interim Report and Chairman's Statement since the Company commenced trading on the London Stock Exchange on 11 July 2018. I welcome as Shareholders those who invested at the time of listing or who have invested since.

On 11 July 2018 the Company acquired its first Catalogue of Songs, The-Dream Catalogue, for approximately \$23.8 million, and since the 30 September 2018 period end acquired a further three Catalogues of Songs from Poo Bear, Bernard Edwards and TMS.

The Investment Adviser's report on pages 7 to 9 reviews the market and provides more detail on the portfolio.

Performance

The gross issue proceeds raised from the listing were £202.2m and the NAV per share on the first day of trading was 98p per share reflecting the issue costs relating to the listing. These costs were principally responsible for the Company's IFRS NAV reducing during the period to 30 September 2018 by £4.7m from £202.2m to £197.5m. As at 30 September 2018 the IFRS NAV per share was 97.68p.

The Company's NAV is calculated on a semi-annual basis, both under IFRS (which principally requires the cost of purchased Catalogues to be amortised) and on an Operative NAV basis (which reflects the fair value of the Company's Catalogues as valued by an Independent Valuer). The Operative NAV as at 30 September 2018 was £199.6m or 98.74p per share, reflecting the increase in value of The-Dream Catalogue, buoyed mostly by the current and predicted growth in streaming income and synchronisation potential of the Catalogue of Songs.

Share price and dividend

There has been limited trading in the Company's shares since the commencement of dealings. As at 30 September 2018 the share price was 107p, a premium of 7% as against the issue price of 100p. The share price as at 7 December 2018 was 107.5p.

The Company announced its first interim dividend, for the period from Admission to 30 September 2018, of 0.50p per share. The Company's target dividend for the first 12 months following Admission is 3.5p per share and the target dividend yield, once the Company is substantially invested, is 5% per annum (based on the issue price of 100p): such yields are expected to grow over time. The Company intends to pay four interim quarterly dividends each year in November, February, May and August.

Board appointment

We were pleased to announce on 30 July 2018 the appointment of Paul Burger as an additional Director. Paul has extensive music industry experience, having held senior positions in Sony Music. Paul chairs the committee of the Board which approves all purchases of Catalogues of Songs.

Chairman's Statement continued

Outlook

Conditions in the music industry, and revenues from Songs, are favourable, particularly boosted by the strong growth in streaming services and the income derived from them. The Investment Adviser is looking for good quality Catalogues and carries out detailed due diligence on them before recommending any purchase to the Board.

Negotiations for the acquisition of a number of Catalogues of Songs are at an advanced stage and since the period end the Company has purchased three new Catalogues for an aggregate purchase price of approximately £22.7m. The returns on these acquisitions are all in line with the targets set out in the Company's prospectus.

Merck Mercuriadis and his team at the Investment Adviser have identified a strong pipeline of opportunities and the Board are confident that we will be able to construct a good and balanced portfolio over the coming months and that the Company will have invested all of the issue proceeds within the stated target of 12 months following Admission.

Andrew Sutch

Chairman

10 December 2018

Investment Adviser's Report

Introduction

The Company was admitted to trading on the Specialist Fund Segment of the London Stock Exchange on 11 July 2018 and there has therefore been less than a complete quarter for which we can report on performance. There are, as yet, no direct benchmarks against which the Investment Adviser can track the Company's performance, but this continues to be kept under close review as the Company's portfolio develops. In terms of trading activity and liquidity, there have been a number of smaller trades in the stock and notably no large institutional sellers. Pleasingly shares have been trading at a premium since inception.

Given our positioning and significant network, the increased demand for Catalogues in the marketplace is not impacting the pricing points which we are discussing with vendors. We are also receiving a high level of inbound requests to engage with vendors of Catalogues. As a consequence, what already was a significant pipeline of possible acquisitions is increasing further still. It is anticipated that the pipeline of acquisition opportunities will selectively convert into transactions during Q4 2018 and Q1 2019.

We have established an office in Tileyard Studios in Kings Cross, London in close proximity to Universal's new UK headquarters, PRS for Music and many of the leading music companies. We expect to launch our Los Angeles based team in Q1 2019 and are in the final stages of negotiation with a major figure in the U.S. publishing business to lead our efforts in the U.S..

Current Market Conditions

The music industry continues to show solid growth; the explosion of streaming services has revived an industry that was once reliant on a declining demand for physical CDs.

More people are listening to music than ever on their mobile phones. Spotify had 87m paying subscribers as at the end of September 2018, with growth of over 30% from the prior year and Apple has an estimated 56m subscribers as at the end of November 2018. These figures are forecast to continue to grow. The widely used Global Entertainment & Media Outlook 2018-2022 Report (published by PwC globally) forecasts an 18% compound annual growth rate (CAGR) for the coming 5 years in streaming revenues driven by new adopters, emerging markets and improvements in mobile phone connectivity, which is consistent with the conclusions drawn in the IFPI's Global Music Report 2018 – Annual State of the Industry.

Coupled with the consumer growth, during the first quarter of 2018 the U.S. Copyright Royalty Board (CRB) approved an increase in streaming rates paid to U.S. publishers/writers of 44% over the next 5 years, which will further benefit the Company's income projections.

Investment Adviser's Report continued

Current Portfolio

As at 30 September 2018 the Company owned one Catalogue of Songs, The-Dream Catalogue. At the time of writing this report the Investment Adviser has received the music royalty statements for the first half of 2018 from Warner Chappell who administer the catalogue, as well as the earnings figures from ASCAP, one of the leading U.S. performing rights organisations. The performance of the catalogue is ahead of the Company's forecast performance on acquisition of the catalogue by 2%. This is an increase of \$216k representing an increase of 29% on that notified by the music royalty statements for equivalent prior period.

For the first half of 2018, the catalogue generated net revenue of \$968k. The strong performance is driven most notably by the continued increase in streaming as a source of revenue, which saw an increase of over 100% and 82% on the catalogue's forecasted and prior year streaming revenue respectively, bearing out the Company's thesis with regards to this particular revenue source. This increase in streaming is marginally offset by the continued decline in more traditional revenue sales, such as physical music sales and music downloads.

Whilst this covers a time period in which the Company did not own the catalogue, the performance is relevant both for the purpose of tracking the actual performance of the asset as well as being the basis for the fair value calculations done by the Company's Independent Valuer.

It was also pleasing to see that opportunistic revenue from synchronisation is up significantly from that forecasted for The-Dream Catalogue and this looks set to continue with the first high visibility synchronisation deal with a song owned by the Company having been agreed by the Investment Adviser. Beyonce's "XO" is featured in Louis Vuitton's new perfume television advertisement. With this one placement the Company has already achieved 25% of the Catalogue's total previous years synchronisation earnings and the synchronisation earnings for this specific song are now up 1700% versus 2017.

Further to this, it is expected that agreements will soon be reached on a number of the Company's Songs to be featured in Beyonce's Coachella TV Special, which will broadcast at Christmas worldwide. This would have significant positive effect on both synchronisation and performance fees for 2019.

Subsequent Events and Outlook

Negotiations for the acquisition of a number of Catalogues are at an advanced stage and since the period end the Company has purchased three new Catalogues for an aggregate purchase price of approximately £22.7m. One of those Catalogues, Poo Bear, was announced on 16 November 2018. Poo Bear's real name is Jason Boyd a 39 year old writer and producer based in Los Angeles. He is best known as Justin Bieber's constant collaborator and co-wrote 9 out of the 13 Songs on Bieber's latest album "Purpose", which has sold over 3 million copies in the U.S. and is one of the biggest selling albums of all time in the UK at over 5 times platinum with over 1,500,000 copies sold. Poo Bear has collaborated, and had Top 10 hits, with some of the biggest artists over the last 20 years, including Usher, David Guetta, DJ Khaled, Chris Brown, Fifth Harmony, Jennifer Lopez and Skrillex. The Company acquired a 100% interest in the Catalogue, which comprises 214 Songs in total.

Investment Adviser's Report continued

Subsequent Events and Outlook (continued)

On 28 November 2018 the Company announced the acquisition of the Bernard Edwards Catalogue. Bernard Edwards is best known for his partnership with Nile Rodgers, together founding CHIC in 1976 and co-writing Number 1 Songs for bands and artists including CHIC, Sister Sledge and Diana Ross. Nile Rodgers is a member of The Family (Music) Limited's advisory board and continues to promote and perform numerous Songs within the catalogue. The catalogue comprises 290 evergreen songs including Everybody Dance, He's The Greatest Dancer, We Are Family and I'm Coming Out. In addition, many of the songs have been extensively sampled, remixed or reissued leading to new hits that are a part of the catalogue including Rapper's Delight and songs by the Beastie Boys, LL Cool J, Puff Daddy and Justin Timberlake. The Company acquired a 37.5% interest in the Catalogue.

On 7 December 2018 the Company announced the acquisition of the TMS Catalogue. TMS is an English songwriting and music production team comprised of Thomas 'Froe' Barnes, Benjamin Kohn and Peter 'Merf' Keller. The catalogue comprises 121 songs including 10 Top 5 UK singles with 5 Number 1 Songs. The Songs have appeared on 13 Top 5 UK albums including 7 Number 1 albums. It includes Songs such as "Don't Be So Hard On Yourself" for Jess Glynne, "Wings" and "DNA" for Little Mix, "Read All About It (Part 3)" for Emeli Sandé, "Changing" for Sigma featuring Paloma Faith, "You're Nobody Till Somebody Loves You" for James Arthur, and others for Years And Years and Dua Lipa. The catalogue also includes the global Top 10 hit "Me, Myself & I" by G-Eazy and Bebe Rexha, which has been the recipient of both BMI and ASCAP Awards as a "Most Performed Work". The Company acquired a 100% interest in the Catalogue.

Board Report

Principal Risks and Uncertainties

Under the FCA's Disclosure and Transparency Rules, the Directors are required to identify those material risks to which the Group is exposed and take appropriate steps to mitigate those risks. The significant risk factors are also disclosed in the Company's prospectus which is available on the Company's website www.hipgnosisongs.com.

The Company's principal risks are related to market conditions in the music business in general, but also the particular circumstances of the Catalogues of Songs in which it is invested. The Board and the Investment Adviser seek to mitigate these risks through active asset management initiatives and carrying out due diligence work on potential targets before entering into any investments.

The principal risks and uncertainties of the Company will be continuously monitored by the Board, with input from the Investment Adviser and its advisory board. There have been no changes to the Company's principal risks and uncertainties since the Initial Public Offering on 11 July 2018 and no changes are anticipated in the next six months of the year. As detailed below the principal risks facing the Company are concentration risk from investing only in the global music copyright sector and inherent risks associated with the fast-changing landscape within the music industry.

Risks associated with the lack of commercial success of individual Songs

The commercial success of a Song is dependent upon the public's response to it, which may not always be predictable, the existence and success of competing entertainment offerings and general economic circumstances. Consequently, a Song may not prove to be as popular, or as commercially successful, as had been forecast at the time of acquisition. Whilst the Company intends primarily to acquire Catalogues containing evergreen Songs from established recording artists and will carry out substantial due diligence on each Catalogue (including on the historic revenues of each Song), there can be no guarantee that the historic performance of a Song will continue in the future.

The music industry is highly innovative and new technology may be introduced

The Company is heavily reliant on streaming, or an equivalent technology which generates high volumes and rates of royalty revenues for songwriters, continuing to be popular with consumers. Historically the music industry has been shown to be especially innovative, with new technology causing changes in consumer demand and experience. Whilst it is possible that new technology may reduce non-synchronisation related royalty revenues, it is also possible that technological advances would lead to a growth in royalties as consumers' access to music continues to improve.

The streaming business model is yet to be proven in the long term and the streaming market is vulnerable to online domination by one DSP

The Company will be heavily reliant on the continuing presence and popularity of DSPs in order to maximise access to the consumer market. However, the business models of DSPs are yet to be proven in the long term and no DSP has yet made a profit.

Board Report continued

Principal Risks and Uncertainties (continued)

Changes in the distribution policies and royalty splits set by the performance rights organisations (PROs) could affect the future revenues received by the Company

Performance rights organisations represent the rights and interests of publishers and songwriters. They collect royalties, create collection policies and set royalty rates for the use of music copyrights. There are over 120 PROs around the world and most of them have agreements and frameworks in place with each other. Should PROs alter the way that they collect royalties, or set lower royalty rates, the Company may receive significantly reduced revenues compared to the level it had forecast at the time of acquiring the relevant Catalogues or Songs.

Operational reliance on service providers

The Company does not have any employees of its own, and relies on service providers for its routine operations. In particular, although the ultimate responsibility for the investment strategy lies with the Board, the Investment Adviser is responsible for sourcing potential opportunities, and advising the Board on acquisitions, exploitation and disposals of Catalogues. The Investment Adviser is a newly-formed company with no operating history. The performance of the Group is dependent on the diligence, skill and judgment of the personnel of the Investment Adviser, and in particular on the key executive, Merck Mercuriadis.

The Group also depends heavily on the specialist administrative services of the Investment Adviser, the Preferred Portfolio Administrator and other collection agents. In the event that these service providers experience business disruption or cyber security breaches, the ability of the Group to collect revenues due may be limited.

Going Concern

The Directors monitor the capital and liquidity requirements of the Company on a regular basis. They have also reviewed cash flow forecasts prepared by the Investment Adviser which are based in part on assumptions about the future purchase of Catalogues of Songs, and the returns from existing Catalogues of Songs.

Based on these sources of information and their own judgement, the Directors believe it is appropriate to prepare the Condensed Consolidated Financial Statements of the Group on a going concern basis.

Board Report continued

Directors' Responsibilities Statement

The Directors are responsible for preparing this Interim Report in accordance with applicable laws and regulations. The Directors confirm that to the best of their knowledge:

- The Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting; and
- The Chairman's Statement, Investment Adviser's Report and Board Report include a fair review of the information required by:
 - (i) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first period of the financial year; their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties of the remaining six months of the year; and
 - (ii) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first period of the current financial year and that have materially affected the financial position or performance of the Company during that period.

On behalf of the Board

Andrew Sutch

Chairman

10 December 2018

Condensed Consolidated Statement of Comprehensive Income (unaudited)

For the period from incorporation on 8 June 2018 to 30 September 2018

	Notes	8 June 2018 to 30 September 2018 £
Income		
Total revenue	11	385,014
Interest income		214,787
Foreign exchange gains on non-investments		195
Total income		599,996
Expenses		
Advisory fees	16	(500,500)
Amortisation of Catalogues of Songs		(202,243)
Administration fees		(40,683)
Directors' remuneration		(43,603)
Broker fees		(13,356)
Audit fees		(39,500)
Legal and professional fees		(419,299)
Other operating expenses	12	(77,134)
Total expenses		(1,336,318)
Operating loss for the period before taxation		(736,322)
Taxation		—
Loss for the period after tax		(736,322)
Total comprehensive loss for the period		(736,322)
Basic Earnings per Share (pence)	13	(0.36)
Diluted Earnings per Share (pence)	13	(0.36)

All activities derive from continuing operations.

The accompanying notes form an integral part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Financial Position (unaudited)

As at 30 September 2018

	Notes	30 September 2018 £
Assets		
Catalogues of Songs	5	17,814,680
Cash and cash equivalents	6	179,162,530
Trade and other receivables	7	664,436
Total assets		197,641,646
Liabilities		
Other payables and accrued expenses	8	156,828
Total liabilities		156,828
Net assets		197,484,818
Equity		
Share capital	9	198,221,140
Retained earnings		(736,322)
Total equity attributable to the owners of the Company		197,484,818
Number of ordinary shares in issue at period end		202,176,800
IFRS Net Asset Value per ordinary share (pence)	10	97.68
Operative Fair Value Net Asset Value per ordinary share (pence)	10	98.74

Approved and authorised for issue by the Board of Directors on 10 December 2018 and signed on their behalf by:

Andrew Sutch
Chairman

Andrew Wilkinson
Director

The accompanying notes form an integral part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Changes in Equity (unaudited)

For the period from incorporation on 8 June 2018 to 30 September 2018

	Note	Number of shares	Share capital £	Retained earnings £	Total equity £
As at 8 June 2018		—	—	—	—
Shares issued	9	202,176,800	202,176,800	—	202,176,800
Share issue costs	9	—	(3,955,660)	—	(3,955,660)
Loss for the period		—	—	(736,222)	(736,322)
As at 30 September 2018		202,176,800	198,221,140	(736,322)	197,484,818

The accompanying notes form an integral part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Cash Flows (unaudited)

For the period from incorporation on 8 June 2018 to 30 September 2018

	Notes	8 June 2018 to 30 September 2018 £
Cash flows used in operating activities		
Operating loss for the period before taxation		(534,274)
Adjustments for non-cash items:		
Movement in other receivables	7	(664,436)
Movement in other payables and accrued expenses	8	156,828
		(1,041,882)
Purchase of Catalogue of Songs	5	(18,016,923)
Net cash used in operating activities		(19,058,805)
Cash flows generated from financing activities		
Proceeds from issue of shares	9	202,176,800
Issue costs paid	9	(3,955,660)
Net cash generated from financing activities		198,221,140
Net movement in cash and cash equivalents		179,162,335
Cash and cash equivalents at the start of the period		—
Effect of foreign exchange rate changes		195
Cash and cash equivalents at the end of the period	6	179,162,530

The accompanying notes form an integral part of these Condensed Consolidated Financial Statements.

Notes to the Condensed Consolidated Financial Statements

For the period from incorporation on 8 June 2018 to 30 September 2018

1. General information

The Condensed Consolidated Financial Statements present the results of the Group for the period ended 30 September 2018. The Group is principally engaged in investing in and managing music copyrights and associated musical intellectual property.

The first annual financial statements of the Group will be prepared for the period from incorporation on 8 June 2018 to 31 March 2019. The Condensed Consolidated Financial Statements do not contain all the information and disclosures that will be contained in annual financial statements. As the Group has not previously published annual financial statements, these Condensed Consolidated Financial Statements contain additional information about the accounting policies applied from incorporation. The Condensed Consolidated Financial Statements are unaudited.

New and amended standards and interpretations applied

On incorporation, the Company adopted all of the IFRS standards and interpretations that were in effect at that date and are applicable to the Group.

Amended standards and interpretations not applied

The following are amended standards and interpretations in issue effective from years beginning on or after 1 January 2019:

Amended standards and interpretations

IAS 12	Income taxes (Amendments resulting from the Annual Improvements: 2015-2017 cycle)	1 January 2019
IAS 28	Investment in Associates and Joint Ventures (Amendments regarding long-term interests in associates and joint ventures)	1 January 2019
IFRS 9	Financial instruments (prepayments feature)	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IAS 19	Employee benefits	1 January 2019
IFRS 16	Leases	1 January 2019

The Company has considered the IFRS standards and interpretations that have been issued, but are not yet effective. None of these standards or interpretations are likely to have a material effect on the Company, as it is the belief of the Board that the activities of the Company are unlikely to be affected by the changes to these standards, although any disclosures recommended by these standards, where applicable, will be provided as required.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

1. General information continued

a) Group information

As at 30 September 2018, the details of the Company's subsidiaries are as follows:

Name of the subsidiary	Place of incorporation and operation	% of voting rights	% Interest	Consolidation method
Hippgnosis SFH I Limited	UK	100	100	Full
Hippgnosis SFH II Limited	UK	100	100	Full
Hippgnosis SFH III Limited	UK	100	100	Full

The subsidiaries of the Company are considered tax residents in the UK and are subject to UK corporation tax.

b) Going concern

The Directors monitor the capital and liquidity requirements of the Company on a regular basis. They have also reviewed cash flow forecasts prepared by the Investment Adviser which are based in part on assumptions about the future purchase of Catalogue of Songs, and the returns from existing Catalogue of Songs.

Based on these sources of information and their own judgement, the Directors believe it is appropriate to prepare the Condensed Consolidated Financial Statements of the Group on a going concern basis.

2. Accounting policies

The principal accounting policies applied in the preparation of these Condensed Consolidated Financial Statements are set out below. These policies have been consistently applied, unless otherwise stated.

a) Basis of preparation

Basis of Accounting

The Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', which comprise standards and interpretations approved by the IASB and IFRIC and applicable Guernsey law. The Condensed Consolidated Financial Statements have been prepared on a historical cost basis as amended from time to time by the fair valuing of certain financial assets and liabilities where applicable.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

2. Accounting policies continued

Consolidation

All companies in which the Company has a controlling interest, namely those in which it has the power to govern financial and operational policies in order to obtain benefits from their operations, are fully consolidated. The Control defined by IFRS 10 is based on the following three criteria to be fulfilled simultaneously to conclude that the parent company exercises control:

- a parent company has power over a subsidiary when the parent company has existing rights that give it the current ability to direct the relevant activities of the subsidiary, i.e., the activities that significantly affect the subsidiary's returns. Power may arise from existing or potential voting rights, or contractual arrangements. Voting rights must be substantial, i.e., they shall be exercisable at any time without limitation, particularly during decision making related to significant activities. The assessment of the exercise of power depends on the nature of the subsidiary's relevant activities, the internal decision-making process, and the allocation of rights among the subsidiary's other shareowners;
- the parent company is exposed, or has rights, to variable returns from its involvement with the subsidiary which may vary as a result of the subsidiary's performance. The concept of returns is broadly defined and includes, among other things, dividends and other economic benefit distributions, changes in the value of the investment in the subsidiary, economies of scale, and business synergies; and
- the parent company has the ability to use its power to affect the returns. Exercising power without having any impact on returns does not qualify as control.

Consolidated financial statements of a group are presented as if the Group was a single economic entity. The Group does not include any non-controlling interest.

Segmental reporting

The decision maker is the Board of Directors. The Directors are of the opinion that the Group is engaged in a single segment of business, being the investment of the Group's capital in Catalogues of Songs and associated musical intellectual property rights, with an attractive and growing level of income, together with the potential for capital growth.

b) Revenue Recognition

Bank Interest Income

Interest income is accounted for on an accruals basis.

Revenue from operations and associated costs

Revenues from operations are recorded when it is probable that future economic benefits will be obtained by the Group and when they can be reliably measured.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

2. Accounting policies continued

b) Revenue Recognition (continued)

Licence arrangements – mechanical, performance and synchronisation income

The Company enters into licence arrangements in respect of Catalogues of Songs with third party collection agents. Licences made to collection agents are deemed to constitute usage based, right of use licences as per IFRS 15. Revenue arising from licences entered into with collection agents is therefore recognised in the period when the usage of the Catalogues of Songs occurs.

Where available at the end of each month or earlier interval to which the revenue relates, revenue is recorded on the basis of royalty statements received from collection agents.

Where notification has not yet been received from collection agents, an estimate is made of the revenue due to the Company at the end of the month to which the usage of the music copyright relates. Estimates are made on the basis of the historical track record of music catalogues, ad hoc data provided by collection agents, industry forecasts and expected seasonal variations.

Non recourse fixed fee arrangements are recognised at the point at which control of the license passes to the collection agents. Variable consideration is recognised in the period when the usage of the Catalogue of Songs occurs.

c) Expenses

Expenses are accounted for on an accruals basis. Expenses are charged through the Statement of Comprehensive Income.

d) Dividends to Shareholders

Dividends are accounted for in the period in which they are declared and approved by the board of Directors.

The Company's target dividend yield is 5 per cent. per annum once substantially invested and the Company expects to grow such dividend over time. The Company is targeting a dividend for the first 12 months following Admission of 3.5 pence per Ordinary Share and intends to pay interim quarterly dividends in November, February, May and August of each year.

e) Assets

Catalogues of Songs

Catalogues of Songs include music catalogues, artists' contracts and music publishing rights and are recognised as intangible assets at the fair value of the consideration paid. Catalogues of Songs are subsequently amortised in expenses over the useful life of the asset. Catalogues of Songs with an indefinite useful life are not amortised but are subject to an annual impairment test. Useful life is separately considered for each Catalogue and is reviewed at the end of each reporting period.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

2. Accounting policies continued

e) Assets (continued)

Contingent consideration

Under the terms of the acquisition agreements for Catalogues, contingent consideration may be payable dependent on future independent valuations of the Catalogues. Contingent consideration will be recognised when performance conditions are met.

Asset impairment

Each time events or changes in the economic environment indicate a risk of impairment of intangible assets, the Group re-examines the value of these assets. This impairment test is performed to compare the recoverable amount to the carrying value of the asset. The recoverable amount is determined as the higher of: (i) the value in use; or (ii) the fair value (less costs to sell) as described hereafter, for each individual asset. The value in use of each asset is determined as the discounted value of future cash flows by using cash flow projections consistent with the budget of the following year and the most recent forecasts. Applied discount rates are determined by reference to an appropriate benchmark as determined by the Board, and reflect the current assessment by the Group of the time value of money and risks specific to each asset. Growth rates used for the evaluation of individual assets are based on industry growth rates sourced from independent market reports and other third party sources. The fair value (less costs to sell) is considered to be equal to the value determined under the DCF model, cross referenced, where appropriate, against market multiples for recent transactions for similar assets. If the recoverable amount is lower than the carrying value of an asset or group of assets, an impairment loss equal to the difference is recognised in profit and loss. The impairment losses recognised in respect of intangible assets may be reversed in a later period if the recoverable amount becomes greater than the carrying value, within the limit of impairment losses previously recognised.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Derecognition of assets

The Group derecognises an asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

On derecognition of an asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

2. Accounting policies continued

f) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the value of proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

g) Share based payments

Investment Adviser's Performance fee

The Group recognises the variable fee for the services received in a share-based payment transaction as the Group becomes liable to the variable fee on an accruals basis.

The fair value of the performance fee, as defined in the Investment Advisory Agreement, which is payable to the Investment Adviser in Shares is recognised as an expense when the fees are earned with a corresponding increase in equity.

h) Cash and Cash Equivalents

Cash at bank and short term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as call deposits, short term deposits with a term of no more than three months from the start of the deposit and highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents consist of cash in hand and short-term deposits in banks with an original maturity of three months or less.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

2. Accounting policies continued

i) Other Receivables

Other receivables do not carry interest and are short-term in nature and are accordingly recognised at fair value.

j) Functional and Foreign currency

Items included in the Condensed Consolidated Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates ('the functional currency'). The Condensed Consolidated Financial Statements are presented in Sterling, which is the Group's functional and presentation currency.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise. Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's Condensed Consolidated Financial Statements requires the application of estimates and assumptions which may affect the results reported in the financial statements. Uncertainty about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Group based its assumptions and made estimates based on the information available when the Condensed Consolidated Financial Statements were prepared. However these assumptions and estimates may change based on market changes or circumstances beyond the control of the Group.

Critical estimates in applying the Group's accounting policies – revenue recognition:

Estimated royalty revenue receivable is accrued for on the basis of historical earnings for each catalogue, which incorporates an element of uncertainty. The estimated revenue accrual may not therefore directly equal the actual cash received in respect of each accounting period and adjustments may therefore be required throughout the financial year when the actual revenue received is known, and these adjustments may be material.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

3. Significant accounting judgements, estimates and assumptions

continued

Assessment of useful life of intangible assets

In order to calculate the amortised cost of the intangible assets, it is necessary to assess the useful economic life of the copyright interests in Songs. This requires forecasts of the expected future revenue from the copyright interests, which contains significant uncertainties as the ongoing popularity of a composition can fluctuate unexpectedly.

The actual useful life of a Catalogue depends on the Catalogue's genre and listener demographic. Analysis of earnings shows that payback periods of purchase prices at industry standard multiples generally range from 10-15 years. Additionally, the term of administration deals in the market between writers and publishers are no longer than 25 years, and generally range from 15-20 years. This reflects the general consensus that the benefits from exploiting revenues from the work of Anglo-American music writers can be reliably estimated over a period of 10-20 years and no longer, due to uncertainty in forecasting over a longer period of time and the level of technological disruption that the industry is subject to. The Board will separately consider the useful life of each Catalogue of Songs, which is expected to be within the range of 10-20 years.

Calculation of Operative NAV

In order to calculate the Operative NAV and Operative NAV per Share, the intangible assets are revalued to an estimate of fair value. The fair value estimates are also used to assess whether there is evidence that the intangible assets are impaired.

Valuations of music publishing rights typically adopt two valuations methods where the Board considers both when deriving the Operative NAV.

The first method adopts a DCF valuation which measures the present value of anticipated future revenues from acquiring the Catalogues, which are discounted at a 'market cost of capital' and a terminal value in 10 years. This method is seen accepted as an objective way of measuring future benefits; taking into account income projections from various music industry sources across various revenue flows whilst also factoring in the associated cost of capital.

The second method is based on a multiple of the NPS or gross profit. NPS is commonly accepted as gross publishing income less direct costs including for writers and administration.

It is the intention of the Board that Catalogues of Songs will be valued on an ongoing basis using a consistent DCF valuation methodology, cross referenced to recent market transactions under the NPS multiple approach for similar assets where considered appropriate.

Assessment of impairment

As disclosed in note 2(e) above, intangible assets with an indefinite useful life are subject to annual impairment review which relies on assumptions made by the Board. Assumptions are updated annually, specifically those relating to future cash flows and discount rates.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

4. Taxes

The Company is exempt from taxation in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 2008 and is charged an annual fee of £1,200.

The Directors have been advised that following certain changes to the United Kingdom tax rules regarding "alternative investment funds" implemented by the Finance Act 2014 and contained in section 363A of the Taxation (International and other Provisions) Act 2010 the Company should not be resident in the United Kingdom for United Kingdom tax purposes. Accordingly, and provided that the Company does not carry on a trade in the UK (whether or not through a branch, agency or permanent establishment situated therein), the Company will not be subject to UK income tax or corporation tax other than on any UK source income.

The UK subsidiaries of the Company are tax resident in the UK and are subject to UK corporation tax.

5. Catalogues of Songs

	£
Cost	
At 8 June 2018	—
Additions	18,016,923
At 30 September 2018	18,016,923
Amortisation and impairment	
At 8 June 2018	—
Amortisation	202,243
Impairment	—
At 30 September 2018	202,243
Net book value	
At 8 June 2018	—
At 30 September 2018	17,814,680

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

5. Catalogues of Songs continued

The Board and the Investment Adviser have deemed the useful life of The-Dream Catalogue to be 20 years.

The Board engaged an Independent Valuer, MGR Weston Kay LLP to value The-Dream Catalogue as at 30 September 2018. A mid-point approach between the DCF valuation and the NPS multiple valuation was adopted to derive the fair value of the Catalogue. The valuation delivered by the multiple approach, which was approved by the Board, was \$24m versus the DCF valuation of \$28m, resulting in a mid-point figure of \$26m.

6. Cash and cash equivalents

Cash and cash equivalents comprises of cash held by the Group available on demand, cash held in deposits and cash in a money market fund. Cash and cash equivalents were as follows:

	30 September 2018
	£
Cash available on demand	11,033,034
Cash held in deposits	94,028,588
Money market fund	74,100,908
Cash and cash equivalents	179,162,530

7. Trade and other receivables

	30 September 2018
	£
Accrued income	320,009
Receivables	119,622
Prepayments	224,805
Trade and other receivables	664,436

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

8. Other payables and accrued expenses

	30 September 2018 £
Administration fees	40,683
Legal & professional fees	63,819
Audit fees	39,500
Other expenses	12,826
Other payables and accrued expenses	156,828

9. Share capital and capital management

The share capital of the Company may consist of an unlimited number of: (i) ordinary shares of no par value which upon issue the Directors may classify as Ordinary Shares; and (ii) C Shares denominated in such currencies as the Directors may determine.

Ordinary Shares of no par value

	No.
Issued and fully paid:	
Shares issued on 11 July 2018	202,176,800
Shares as at 30 September 2018	202,176,800
	£
Issued and fully paid:	
Shares issued on 11 July 2018	202,176,800
Share issue costs	(3,955,660)
Shares as at 30 September 2018	198,221,140

Under the Company's Articles of Incorporation, each Shareholder present in person or by proxy has the right to one vote at general meetings. On a poll, each Shareholder is entitled to one vote for every Ordinary Share held.

Shareholders are entitled to all dividends paid by the Company and, on a winding up, provided the Company has satisfied all of its liabilities, the Shareholders are entitled to all of the residual assets of the Company.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

10. Net Asset Value per Share and Operative Net Asset Value per Share

	30 September 2018
Number of Ordinary Shares in issue	202,176,800
IFRS NAV per Share (pence)	97.68
Operative NAV per Share (pence)	98.74

The IFRS NAV per Share and the Operative NAV per Share are arrived at by dividing the IFRS Net Assets and Operative Net Assets (respectively) by the number of Ordinary Shares in issue.

Catalogues of Songs are classified as intangible assets and measured at amortised cost or cost less impairment in accordance with IFRS.

The Directors are of the opinion that an Operative NAV provides a more meaningful performance measure as the value of Catalogues of Songs is based on fair values produced by an Independent Valuer.

Reconciliation of IFRS NAV to Operating NAV

	30 September 2018 £
IFRS NAV	197,484,818
Adjustments for revaluation of Catalogues of Songs to fair value	1,945,636
Reversal of amortisation	202,243
Operative NAV	199,632,697

11. Revenue

Total revenue of £385,014 is revenue recognised from The-Dream catalogue from acquisition on 11 July 2018 to 30 September 2018 and includes Synchronisation income of £41,795 and recoupment upside income of £65,006, which is earnings over and above the amount required to recoup the outstanding advance balance agreed to be settled by the Company.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

12. Other operating expenses

	8 June to 30 September 2018 £
Regulatory fees	(5,939)
Listing fees	(9,747)
D&O Insurance	(4,381)
Directors expenses	(656)
Registrar fees	(1,585)
Postage, stationery and printing	(13,727)
Public relation fees	(14,625)
Bank charges	(1,480)
Other expenses	(24,994)
Total other operating expenses	(77,134)

13. Earnings per share

	30 September 2018	
	Basic	Diluted
Loss for the period (£)	(736,322)	(736,322)
Weighted average number of Ordinary Shares in issue	202,176,800	202,176,800
Earnings per share (pence)	(0.36)	(0.36)

The earnings per share is based on the profit or loss of the Group for the period and on the weighted average number of Ordinary Shares for the period ended 30 September 2018.

There are no dilutive shares at 30 September 2018.

14. Dividends

A summary of the dividends are set out below:

8 June 2018 to 30 September 2018	Dividend per share Pence	Total dividend £
Interim dividend in respect of period ended 30 September 2018	0.50	1,010,884

Subsequent to the period end, the Company announced its first interim dividend for the period from Admission to 30 September 2018 of 0.50 pence per Ordinary Share. The dividend was paid to Shareholders, on the register at the close of business on 2 November 2018, on 29 November 2018.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

15. Financial Risk Management

Financial Risk Management Objectives

The Company's activities expose it to various types of financial risk, principally market risk, credit risk, and liquidity risk. The Board has overall responsibility for the Company's risk management and sets policies to manage those risks at an acceptable level.

Fair values

Management assessed that the fair values of cash and cash equivalents, trade and other receivables, trade and other payables and royalty advances approximate their carrying amount largely due to the short-term maturities and high credit quality of these instruments.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. The Group is exposed to currency risk and interest rate risk.

a) Currency risk

Currency risk is the risk that the fair values of future cashflows will fluctuate because of changes in foreign exchange rates. The revenue earned from the Catalogue of Songs may be subject to foreign currency fluctuations. Royalties are earned globally and paid in a number of currencies, therefore the Company may be impacted by adverse currency movements. The Company will convert the majority of overseas currency receipts into Sterling by agreeing to currency exchange arrangements with collection agents, or otherwise itself undertaking foreign exchange conversions. The Company may engage in full or partial foreign currency hedging and interest rate hedging. The Company will not enter into such arrangements for investment purposes.

The currencies in which financial assets and liabilities are denominated are shown below:

	GBP	USD	Total
	£	Converted to £	£
As at 30 September 2018			
Trade and other receivables	664,436	—	664,436
Cash and cash equivalents	179,097,334	65,196	179,162,530
Total financial assets	179,761,770	65,196	179,826,996
Trade and other payables	156,828	—	156,828
Total financial liabilities	156,828	—	156,828
Net asset position	179,304,942	65,196*	179,670,138

*At the reporting date, if the USD had strengthened/weakened by 10% against GBP with all other variables held constant, the net assets and movement in the translation reserve would have been £5,927 lower / higher.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

15. Financial Risk Management

continued

Market Risk (continued)

b) Cash flow and fair value interest rate risk

The Company is exposed to cash flow interest rate risk only on cash and cash equivalents.

Credit Risk

Credit risk is the risk of loss due to failure of a counterparty to fulfil its contractual obligations. The Group is exposed to credit risk in respect of its contracts with PROs. This exposure is minimised by dealing with reputable PROs whose credit rating is deemed to be low risk.

The Group is exposed to credit risk through its balances with banks and its indirect holdings of money market instruments through those money market funds which are classified as cash equivalents for the purposes of these Condensed Consolidated Financial Statements.

The table below shows the Group's material cash balances and the short-term issuer credit rating or money-market fund credit rating as at the period end date:

	Location	Rating*	30 September 2018 £
Barclays Bank plc	Guernsey	A-1	105,061,622
Blackrock Institutional Sterling Liquidity Fund	UK	AAAm	74,100,908

*Rated by Standard & Poor's

Liquidity Risk

Liquidity risk is the risk that the Group may not be able to meet their financial obligations as they fall due. The Company maintains a prudent approach to liquidity management by maintaining sufficient cash reserves to meet foreseeable working capital requirements.

During the period ended 30 September 2018, the Group had no financial liabilities other than trade and other payables.

16. Material Agreements

Directors

The Directors will be remunerated for their services at a fee of £35,000 per annum (£45,000 for the Chairman). The chairman of the Audit and Risk Management Committee will receive an additional £5,000 for his services in this role.

Directors' fees and expenses for the period to 30 September 2018 amounted to £44,259, of which £nil was outstanding at the period end.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

16. Material Agreements continued

Investment Adviser

The Company has entered into an Investment Advisory Agreement with the Investment Adviser pursuant to which the Investment Adviser will source Songs and provide recommendations to the Board on acquisition and disposal strategies, manage and monitor royalty and/or fee income due to the Company from its copyrights and collection agents, and develop strategies to maximise the earning potential of the Songs in the portfolio through improved placement and coverage of Songs.

The Investment Adviser is entitled to receive an advisory fee (payable in cash) and a performance fee (usually payable predominantly in Shares subject to an 18 month lock up arrangement). The full terms and conditions of the calculation of the Advisory and performance fees are disclosed in the Company's prospectus, which is available on the Company's website (www.hipgnosissongs.com). However in summary:

Advisory Fee

The advisory fee is calculated at the rate of:

- (i) 1 per cent. per annum of the Average Market Capitalisation up to, and including, £250 million;
- (ii) 0.90 per cent. per annum of the Average Market Capitalisation in excess of £250 million and up to and including £500 million; and
- (iii) 0.80 per cent. per annum of the Average Market Capitalisation in excess of £500 million.

Advisory fees for the period were £500,500 with £nil outstanding at the reporting date. The Board also approved an advance of £200,000 paid to the Investment Adviser which will be offset in equal instalments over 12 months and is currently included in note 7 as a prepayment.

Performance Fee

The performance fee is equal to 10 per cent. of the Excess Total Return relating to that accounting period provided that the Performance Fee shall be capped such that the sum of the Advisory Fee and the Performance Fee paid in respect of that accounting period is no more than 5 per cent. of the lower of: (i) Net Asset Value; or (ii) Closing Market Capitalisation at the end of that Accounting Period.

Administration Agreement

Pursuant to the Administration Agreements: (i) Estera International Fund Managers (Guernsey) Limited has been appointed as Fund Administrator of the Company; and (ii) Estera Administration (UK) Limited has been appointed as administrator to the subsidiaries. The Fund Administrator or Estera Administration (UK) Limited (as applicable) are responsible for the day to day administration of the Company and the subsidiaries which accedes to the relevant Administration Agreement (including but not limited to the calculation and publication of the semi-annual NAV and the IFRS NAV) and general secretarial functions required by the Companies Law (including but not limited to maintenance of the Company's accounting and statutory records). For the purposes of the RCIS Rules, the Fund Administrator is the designated manager of the Company.

Notes to the Condensed Consolidated Financial Statements

continued

For the period from incorporation on 8 June 2018 to 30 September 2018

16. Material Agreements continued

Administration Agreement (continued)

Investors should note that it is not possible for the Fund Administrator or Estera Administration (UK) Limited to provide any investment advice to investors.

Administration fees for the period were £40,683 with £29,433 outstanding at the reporting date.

Registrar Agreement

Computershare Investor Services (Guernsey) Limited (a company incorporated in Guernsey on 3 September 2009 with registered number 50855) has been appointed as registrar to the Company pursuant to the Registrar Agreement. In such capacity, the Registrar will be responsible for the transfer and settlement of Shares held in certificated and uncertificated form. The Registrar is also entitled to reimbursement of all out of pocket costs, expenses and charges properly incurred on behalf of the Company.

Registrar fees for the period were £1,585 with £552 outstanding at the reporting date.

17. Subsequent events

Subsequent to the period end, the Company announced its first interim dividend for the period from Admission to 30 September 2018 of 0.50 pence per Ordinary Share. The dividend was paid to Shareholders, on the register at the close of business on 2 November 2018, on 29 November 2018.

On 16 November 2018 the Company announced the acquisition of the Poo Bear Catalogue from Jason Boyd, a U.S. songwriter and producer better known by his professional name Poo Bear. Poo Bear has collaborated, and had Top 10 hits, with some of the biggest artists over the last 20 years, including Usher, David Guetta, DJ Khaled, Chris Brown, Fifth Harmony, Jennifer Lopez and Skrillex, but is best known as one of Justin Bieber's closest collaborators. The Company acquired 100% interest in the Catalogue, which comprises 214 Songs in total.

On 28 November 2018 the Company announced the acquisition of the Bernard Edwards Catalogue. Bernard Edwards is best known for his partnership with Nile Rodgers, together founding CHIC in 1976 and co-writing Number 1 Songs for bands and artists including CHIC, Sister Sledge and Diana Ross. Nile Rodgers is a member of The Family (Music) Limited's advisory board and continues to promote and perform numerous Songs within the catalogue. The Company acquired a 37.5% interest in the Catalogue, which comprises 290 Songs in total.

On 7 December 2018 the Company announced the acquisition of the TMS Catalogue. TMS is an English songwriting and music production team comprised of Thomas 'Froe' Barnes, Benjamin Kohn and Peter 'Merf' Keller. The Company acquired a 100% interest in the Catalogue, which comprises 121 Songs in total.

There were no other material events after the period end to the date on which these Condensed Consolidated Financial Statement were approved.

Glossary of Capitalised Defined Terms

"Administrator" means Estera International Fund Managers (Guernsey) Limited;

"Admission" means admission, on 11 July 2018, to trading on the Specialist Fund Segment of the London Stock Exchange, of the Ordinary Shares becoming effective in accordance with the Listing Rules and/or the LSE Admission Standards;

"AIC" means the Association of Investment Companies;

"AIC Code" means the AIC Code of Corporate Governance;

"AIC Guide" means the AIC Corporate Governance Guide for Investment Companies;

"AIF" means Alternative Investment Funds;

"AIFM" means AIF Manager;

"AIFMD" means EU Alternative Investment Fund Managers Directive (No. 2011/61EU);

"Annual General Meeting" or **"AGM"** means the annual general meeting of the Company;

"Annual Report" or **"Annual Report and Consolidated Financial Statements"** means the annual publication of the Company provided to the Shareholders to describe their operations and financial conditions, together with their Financial Statements;

"Articles of Incorporation" or **"Articles"** means the articles of incorporation of the Company;

"ASCAP" means American Society of Composers, Authors and Publishers;

"Audit Committee" means a formal committee of the Board with defined terms of reference;

"Average Market Capitalisation" means, in relation to each month where the advisory fee is payable, ("A" multiplied by "B") plus ("C" multiplied by "D"), where:

"A" is the average of the middle market quotations of the Ordinary Shares for the five day period ending on the last business day of that month (adjusted as appropriate to exclude any dividend where the Ordinary Shares are quoted ex such dividend at any time during that five day period); "B" is weighted average of the number of Ordinary Shares in issue (excluding any Shares held in treasury) at the end of each day during that month; "C" is the average of the middle market quotations of a class of C Shares in issue for the five day period ending on the last business day of that month (adjusted as appropriate to exclude any dividend where the C Shares of that class are quoted ex such dividend at any time during that five day period); and "D" is weighted average of the number of that class of C Shares in issue (excluding any Shares held in treasury) at the end of each day during that month;

"Board" or **"Directors"** means the Directors of the Company;

"Catalogue" means one or more Songs acquired from a single songwriter or artist;

"CD" means compact disc;

Glossary of Capitalised Defined Terms continued

"Closing Market Capitalisation" means, in relation to each Accounting Period, "E" multiplied by "F", where: "E" is the Performance Share Price; and "F" is the weighted average of the number of Ordinary Shares in issue (excluding any Shares held in treasury) at the end of each day during the Accounting Period;

"Companies Law" means the Companies (Guernsey) Law, 2008, (as amended);

"Company" means Hipgnosis Songs Fund Limited. References to the Company are also considered to be references to the Group, where applicable;

"Company Secretary" means Estera International Fund Managers (Guernsey) Limited;

"Condensed Consolidated Financial Statements" means the unaudited financial statements of the Company, including the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and associated notes;

"Corporate Governance Code" means The UK Corporate Governance Code 2016 as published by the Financial Reporting Council;

"DCF" means discounted cash flow;

"Discount to NAV" means the situation where the Ordinary Shares of the Company are trading at a price lower than the Company's Net Asset Value;

"Disclosure Guidance and Transparency Rules" or **"DTRs"** mean the disclosure guidance published by the FCA and the transparency rules made by the FCA under section 73A of FSMA;

"DSP" means digital service providers;

"Earnings per Share" or **"EPS"** means the Earnings per Ordinary Share and is expressed in pounds Sterling;

"Excess Total Return" means for an Accounting Period, it is calculated by reference to: (i) the difference between the Performance Share Price at the end of that Accounting Period and the higher of: (a) the Performance Hurdle (being Issue Price compounded by 10 per cent. per annum from Initial Admission subject to appropriate adjustments in certain situations); and (b) High Watermark (being the Performance Share Price at the end of the last Accounting Period where a Performance Fee was payable); multiplied by (ii) the weighted average of the number of Ordinary Shares in issue (excluding any Shares held in treasury) at the end of each day during that Accounting Period;

"FCA" means the UK Financial Conduct Authority (or its successor bodies);

"FRC" means Financial Reporting Council;

"GFSC" or **"Commission"** means the Guernsey Financial Services Commission;

"GFSC Code" means the GFSC Finance Sector Code of Corporate Governance;

"Group" means Hipgnosis Songs Fund Limited and its subsidiaries;

Glossary of Capitalised Defined Terms continued

"IAS" means international accounting standards as issued by the Board of the International Accounting Standards Committee;

"IASB" means the International Accounting Standards Board;

"IFRIC" means International Financial Reporting Interpretations Committee;

"IFRS" means the International Financial Reporting Standards, being the principles-based accounting standards, interpretations and the framework by that name issued by the International Accounting Standards Board;

"IFRS NAV" means the value of the Gross Assets of the Company less its liabilities (including accrued but unpaid fees) in accordance with the accounting policies adopted by the Directors;

"Independent Valuer" means third party appointed by the Board to independently value the Company Catalogues;

"Interim Report" means the Company's half yearly report and unaudited Condensed Consolidated Financial Statements for the period ended 30 September;

"Investment Adviser" means The Family (Music) Limited;

"Investment Advisory Agreement" means the investment advisory agreement dated 27 June 2018 between The Family (Music) Limited, the Company and Hippnosis SFH I Limited;

"IPO" means the initial public offering of shares by a private company to the public;

"ISA" means International Standards on Auditing (UK and Ireland);

"ISIN" means an International Securities Identification Number;

"Listing Rules" means the listing rules made by the UK Listing Authority under section 73A Financial Services and Markets Act 2000;

"London Stock Exchange" or **"LSE"** means London Stock Exchange Plc;

"NAV per Share" means the Net Asset Value attributable to the Ordinary Shares in issue divided by the number of Ordinary Shares in issue (excluding any Shares held in treasury) at the relevant time and expressed in Sterling;

"Net Asset Value" or **"NAV"** means the value of the assets of the Company less its liabilities as calculated in accordance with the Company's valuation policy and expressed in pounds Sterling;

"NPS" means net publisher share;

"Operative NAV" means NAV as adjusted for the fair value of Catalogues of Songs;

"Ordinary Shares" means redeemable ordinary shares of no par value in the capital of the Company issued and designated as "Ordinary Shares" and having the rights, restrictions and entitlements set out in the Articles;

Glossary of Capitalised Defined Terms continued

“Portfolio” means the portfolio of Songs (whether organised into Catalogues or otherwise) held by the Company directly or indirectly from time to time;

“Performance Right Organisations” or **“PROs”** means a performing rights organisation, such as PRS or BMI, which represents and collects performance royalties for and on behalf of each of its members;

“Performance Share Price” means in relation to each accounting period, the average of the middle market quotations of the Ordinary Shares for the one month period ending on the last business day of that accounting period;

“Preferred Portfolio Administrator” means the portfolio administrators appointed by the Company in order to assist with the administration of the Portfolio including Kobalt Music Services Limited, the Company’s preferred portfolio administrator;

“Premium to NAV” means the situation where the Ordinary Shares of the Company are trading at a price higher than the Company’s Net Asset Value;

“RCIS Rules” means the Registered Collective Investment Scheme Rules 2015;

“Shareholder” means the holder of one or more Ordinary Shares;

“Song” means a songwriter’s and/or publisher’s share of copyright interest in a song, being a musical composition of words and/or music and the songwriter’s proportion of the publishing rights of a single musical track, and when construction permits, the collection of words and/or music as purchased by consumers;

“The-Dream” means the Catalogue purchased from Terius Nash, better known by his stage name ‘The-Dream’;

“UK” or **“United Kingdom”** means the United Kingdom of Great Britain and Northern Ireland;

“U.S.” or **“United States”** means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;

“£” or **“Pounds Sterling”** or **“Sterling”** means British pound sterling and **“pence”** means British pence; and

“\$” means United States dollars and **“cents”** means United States cents.

Directors and General Information

Directors (all non-executive)

Andrew Sutch (Chairman)
 (Appointed 8 June 2018)
 Simon Holden (Appointed 8 June 2018)
 Andrew Wilkinson (Chairman of the Audit
 Committee) (Appointed 8 June 2018)
 Paul Burger (Appointed 30 July 2018)

Registered Office

Heritage Hall
 PO Box 225
 Le Marchant Street
 St Peter Port
 Guernsey
 GY1 4HY

Investment Adviser

The Family (Music) Limited
 Lansdowne House
 1b Lansdowne Road
 Holland Park
 London
 W11 3LP
www.hipgnosissongs.com

Fund Administrator and Company Secretary

Estera International Fund Managers
 (Guernsey) Limited
 Heritage Hall
 PO Box 225
 Le Marchant Street
 St Peter Port
 Guernsey
 GY1 4HY

Registrar

Computershare Investor Services (Guernsey)
 Limited
 1st Floor
 Tudor House
 Le Bordage
 St Peter Port
 Guernsey
 GY1 1DB

Corporate Broker

N+1 Singer Advisory LLP
 1 Bartholomew Lane
 London
 EC2N 2AX

Independent Auditor

PricewaterhouseCoopers CI LLP
 Royal Bank Place
 1 Glatigny Esplanade
 St Peter Port
 Guernsey
 GY1 2HJ

Music Specialist Legal Counsel

CTABL Inc.
 9460 Sunrise Lakes Boulevard
 Suite 302
 Sunrise
 Florida
 33322

Legal Advisers to the Company

Herbert Smith Freehills LLP
 Exchange House
 Primrose Street
 London
 EC2A 2EG

Legal Advisers to the Company as to Guernsey Law

Ogier (Guernsey) LLP
 Redwood House
 St Julian's Avenue
 St Peter Port
 Guernsey
 GY1 1WA

Directors and General Information continued

Principal Banker

Barclays Bank
PO Box 41
Le Marchant House
St Peter Port
Guernsey
GY1 3BE

Preferred Portfolio Administrator

Kobalt Music Services Limited
The River Building
1 Cousin Lane
London
EC4R 3TE

Identifiers

ISIN: GG00BFYT9H72
Ticker: SONG
SEDOL: BFYT9H7
Website: www.hipgnosissongs.com

Managing your account online

The Company's registrar, Computershare Investor Services (Guernsey) Limited, allows you to manage your shareholding online. If you are a direct investor you can view your shareholding, change the way the registrar communicates with you and buy and sell shares. If you haven't used this service before, all you need to do is enter the name of the Company and register your account at <https://www-uk.computershare.com/investor>. You'll need your Investor code (IVC) printed on your share certificate in order to register.

Cautionary Statement

The Chairman's Statement, the Investment Adviser's Report and Board Report have been prepared solely to provide additional information for shareholders to assess the Company's strategies and the potential for those strategies to succeed. These should not be relied on by any other party or for any other purpose.

The Chairman's Statement, Investment Adviser's Report and Board Report may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology.

These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors and the Investment Adviser, concerning, amongst other things, the investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, liquidity, prospects, and distribution policy of the Company and the markets in which it invests.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance.

The Company's actual investment performance, results of operations, financial condition, liquidity, distribution policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document.

Subject to their legal and regulatory obligations, the Directors and the Investment Adviser expressly disclaim any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

Hipnosis Songs Fund Limited

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