EMI Records Limited

Directors' Report and Financial Statements

31 March 2008

Registered No. 68172

Registered No. 68172

Directors

C J Ancliff (resigned 23 November 2007)
J French (resigned 23 November 2007)
I L Hanson (resigned 23 November 2007)
C Kennedy (resigned 23 November 2007, re-appointed 17 December 2008)
J H Morris (resigned 23 November 2007)
S Alexander (appointed 23 November 2007, resigned 17 December 2008)
R Punja (appointed 23 November 2007, resigned 17 December 2008)
C Roling (appointed 23 November 2007, resigned 22 September 2008)
A Chadd (appointed 22 September 2008)

Secretaries

Mawlaw Secretaries Limited

Auditors

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

Registered Office

EMI House
43 Brook Green
London W6 7EF

Directors' report

The directors submit their report and financial statements for the year ended 31 March 2008.

Results and dividends

The loss for the year, after taxation, was £22,103,000 (2007 – £27,164,000).

The directors do not recommend payment of a dividend for the year (2007 – £nil).

Principal activities and review of business development

The company continues to be engaged in the sale and distribution of all forms of recorded music. These activities are unlikely to change in the foreseeable future.

Financial review

Turnover has decreased by £60,187,000 (40.8%) compared to the prior year, whilst operating loss, after charging exceptional items relating to reorganisation and impairment of artist advances of £30,314,000 (2007: £61,360,000), has decreased by £3,413,000 (10.0%) and net liabilities have decreased by £38,790,000 (66.6%).

On 17 August 2007, Maltby Acquisitions Limited acquired 100% of the issued share capital of EMI Group Limited (formerly EMI Group plc), the Company's ultimate parent, for a consideration of £2,206 million (including acquisition fees of £28 million).

Subsequent to the acquisition, the Company engaged experts and consultants, together with in-house expertise, to analyse in detail the commercial and geographic markets in which the Company operates, assess and redefine the strategic objectives of the business, and started to implement a wide ranging restructuring exercise to fundamentally reshape the business. This restructuring exercise continued after the period end.

Analysis of key performance indicators

The directors and management of the Company use a number of key performance indicators (KPIs) to assess the ongoing performance of the business. The principal profit KPI used by the directors is EBITDA, which is considered a proxy for cash flow. The directors define EBITDA as the profit from operations stated before depreciation, amortisation, exceptional items (including restructuring costs) and the share of associates' and joint ventures' results. EBITDA for the year ended 31 March 2008 was £8,052,000 (2007: £35,139,000).

Key risks and uncertainties

The Company's business faces a number of risks and uncertainties as is normal for a Company of its size and complexity. The directors consider that the principal risks faced by the business include:

- Continued decline of recorded music sales across the world, not being offset by the revenue generating digital market;
- The execution of wide-ranging re-structuring of the business; and
- The economic downturn that is spreading throughout the worldwide financial markets.

Directors' report (continued)

Directors and their interests

The directors who served during the year are shown below:

C J Ancliff (resigned 23 November 2007)
J French (resigned 23 November 2007)
I L Hanson (resigned 23 November 2007)
C Kennedy (resigned 23 November 2007)
J H Morris (resigned 23 November 2007)
S Alexander (appointed 23 November 2007)
R Punja (appointed 23 November 2007)
C Roling appointed 23 November 2007, resigned 22 September 2008)

None of the directors had any interests in the shares of the company during the year.

The directors who were appointed since the year end are shown below:

A Chadd (appointed on 22 September 2008)

Political and charitable contributions

During the year, the company made various charitable contributions totalling £126,000 (2007 – £123,000).

Employment of disabled persons

It is company practice to encourage, wherever practicable, the employment of disabled persons and to provide appropriate opportunities for their training, career development and promotion. When employees become disabled while in the service of the company, every effort is made to rehabilitate them into their former jobs or some other suitable alternative.

Employee involvement

The company has continued to further its employee involvement policies. These include the provision of information to employees and consultation with their representatives on matters affecting them, as well as the regular communication of financial information and details of the company's performance.

Supplier payment policy

The company negotiates payment terms with its suppliers on an individual basis, with the normal spread being payment at the end of the month of delivery plus 30 to 60 days. Agreement to the applicable payment terms is secured in every case.

The company emphasises the importance of prompt payment to small-sized businesses in line with UK governmental and CBI initiatives.

At 31 March 2008 the company had an average of 50 days' purchases outstanding in trade creditors (2007 – 51).

Disclosure of Information to Auditors

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 auditors are 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 auditors are aware of that information.

Directors' report (continued)

Auditor

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

On behalf of the Board

for and on behalf of
Maclay Secretaries Limited
SECRETARY

~~A Chadd~~

~~Director~~

29 January 2009

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of EMI Records Limited

KPMG LLP
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB

We have audited the company's financial statements for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

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

Basis of audit opinion

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

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

Independent auditors' report

to the members of EMI Records Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

KPMG LLP

29 January 2009

Profit and loss account

for the year ended 31 March 2008

	Note	2008 £000	2007 £000
Turnover	2	87,169	147,356
Cost of sales		(10,274)	(88,728)
Gross profit		76,895	58,628
Distribution costs:			
Before exceptional items		(1,820)	(3,749)
Reorganisation costs	7	-	(569)
		(1,820)	(4,318)
Administrative expenses:			
Before exceptional items		(80,378)	(31,334)
Reorganisation costs	7	-	(47,714)
Provision against artists' advances and artists' contracts	7	(29,856)	(10,760)
Fixed asset impairment	7	(458)	(2,317)
		(110,692)	(92,125)
Other operating income		4,894	3,679
		(107,618)	(92,764)
Net operating loss	3	(30,723)	(34,136)
Interest receivable	8	28,853	12,760
Interest payable and similar charges	9	(20,233)	(5,788)
		8,620	6,972
Loss on ordinary activities before taxation		(22,103)	(27,164)
Tax on loss on ordinary activities	10	-	-
Loss on ordinary activities after taxation	21	(22,103)	(27,164)

As stated in the Director's report, the results above for the year ended 31 March 2008 and 31 March 2007 are all derived from continuing activities.

The notes on pages 10 to 22 form part of these financial statements.

A note of historical cost profit and losses has not been prepared as part of the financial statements since the results disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

Statement of total recognised gains and losses

for the year ended 31 March 2008

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £22,103,000 in the year ended 31 March 2008 and a loss of £27,164,000 in the year ended 31 March 2007.

Balance sheet

at 31 March 2008

	Note	2008 £000	2007 £000
Fixed assets			
Intangible assets	11	–	8
Tangible assets	12	26,771	33,113
Investments	13	49,213	49,213
		75,984	82,334
Current assets			
Stocks	14	2,683	3,434
Debtors	15	449,339	421,836
Cash at bank and in hand		31,400	32,103
		483,422	457,373
Creditors: amounts falling due within one year	16	(323,642)	(369,614)
Net current assets		159,780	87,759
Total assets less current liabilities		235,764	170,093
Creditors: amounts falling due after more than one year	17	(201,660)	(201,913)
Provisions for liabilities	18	(4,430)	(26,403)
		(206,090)	(228,316)
Net Liabilities		29,674	(58,223)
Capital and reserves			
Called up share capital	19,21	112,605	2,605
Profit and loss account	21	(82,931)	(60,828)
Equity shareholders' deficit	21	29,674	(58,223)

The notes on pages 10 to 22 form part of these financial statements.

Approved by the Board of Directors on 29 January 2009 and signed on behalf of the Board:

A Chadd
Director
29 January 2009

Notes to the financial statements

at 31 March 2008

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and on a going concern basis.

The financial statements have been prepared in accordance with Accounting Standards in the United Kingdom.

Consolidated financial statements of the company and its subsidiary undertakings are not presented since the company is a wholly owned subsidiary undertaking of another company that prepares group financial statements and is incorporated in England and Wales.

Going Concern

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £19,433,000 at 31 March 2008. The directors of EMI Records Limited believe the going concern basis is appropriate for the following reasons. The company is dependent for its working capital on funds provided to it by Maltby Capital Limited, the company's ultimate holding company. Maltby Capital Limited has indicated that for at least twelve months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company. This should enable the company to continue in operational existence for the foreseeable future by meeting their liabilities as they fall due for repayment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although based on consolidated cash flow projections, at the date of approval of these financial statements, they have no reason to believe that it will not do so. Based on this undertaking the directors believe that its remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Statement of cash flows

Under FRS 1 'Cash flow statements', the Company is exempt from the requirement to prepare a cash flow statement since it is a wholly owned subsidiary undertaking. The consolidated financial statements of Maltby Capital Limited include a consolidation cash flow statement dealing with the cash flows of the group.

Investments

Investments in subsidiary and associated undertakings are stated at cost less, where relevant, a provision to reflect any permanent diminution in value.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date. All differences are taken to the profit and loss account.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Sale of goods: revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer i.e. on despatch and can be reliably measured. Revenue is measured at fair value after making provision in respect of expected future returns of goods and services supplied by the company prior to the balance sheet date

Notes to the financial statements (continued)

at 31 March 2008

1. Accounting policies (continued)

Revenue (continued)

- Royalty and other income: all royalty and other income is recognised when it has been earned and can be reliably measured

- Interest income is recognised when it has been earned and can be reliably measured

Depreciation

Depreciation of property, plant, equipment and vehicles is calculated on cost or valuation at rates estimated to write off the relevant assets by equal annual amounts over their expected useful lives. Effect is given, where necessary, to commercial and technical obsolescence.

The annual rates used are:

Freehold buildings at 2%
Plant, machinery and furniture at rates varying from 10% to 33.33%
Computer software at 33.33%
Computer hardware at 25%
Motor vehicles at 25%

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

Stocks

These are stated at the lower of cost and net realisable value, which is arrived at by making a provision for obsolete and slow moving items. Cost includes a proportion of manufacturing overheads.

Advances

In the ordinary course of business the company pays advances and other expenses recoupable from future royalties to performing artists, songwriters, producers and third party repertoire owners. The amounts paid are carried at cost less recoupment and less an allowance for any unrecoupable amounts. The allowance is based on past revenue performance, current popularity and projected revenue. Advances are recoupable during the business operating cycle. All advances are therefore reported as current assets, including advances recoupable more than 12 months after the balance sheet date.

Leasing

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the period of the lease (note 3).

Retirement benefits

Retirement benefits are accounted for under FRS 17 Retirement Benefits. The Company operates both defined benefit and defined contribution schemes for its employees. The Company is unable to identify its share of the underlying assets and liabilities of its defined benefit schemes and so, in accordance with FRS 17, the Company accounts for them as defined contribution schemes.

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties, group undertakings and associates. It is attributable to one continuing activity wholly within the UK.

Notes to the financial statements (continued)

at 31 March 2008

3. Net operating loss

This is stated after charging:

		2008	2007
		£000	*£000*
Amortisation		8	429
Depreciation		7,995	8,055
Operating leases	– plant and machinery	10,327	466
	– land and buildings	55	3,367
Other equipment rental	– plant and machinery	31	24
Exchange gain on foreign currency balances		40	88
Exceptional items		30,314	61,360

The exceptional items in 2008 relate to provisions against artists' advances and artists' contracts and impairment of fixed assets.

4. Auditors' remuneration

	2008	2007
	£000	*£000*
Audit of these financial statements	119	251

5. Directors' remuneration

	2008	2007
	£000	*£000*
Emoluments	3,743	1,960
Company contributions to defined benefit pension scheme	101	–
Company contributions to defined contribution pension scheme	91	–
	3,935	1,960

	2008	2007
	No.	*No.*
The following number of directors are accruing benefits under the defined benefit pension scheme	4	5

The remuneration, excluding pension contributions, of the highest paid director was £2,040,681.68 (2007 – £562,836). Company contributions to the highest paid director's defined benefit pension scheme were £23,688 (2007 – £nil).

Notes to the financial statements (continued)

at 31 March 2008

6. Staff costs

	2008	2007
	£000	£000
Wages and salaries	35,070	52,988
Social security costs	2,516	5,655
Other pension costs	4,658	11,048
	42,244	69,691

This includes remuneration paid to directors of the company of £3,935,000 (2007 – £1,960,000).

	2008	2007
	No.	No.
The average monthly number of employees, including directors, was	588	849

7. Exceptional items

Recognised in arriving at operating result through administrative expenses:

	2008	2007
	No.	No.
Reorganisation costs	–	47,714
Provision against artists' advances and artists' contracts	29,856	10,760
Fixed asset impairment	458	2,317
	30,314	60,791

Due to changes in the economic environment, the directors assessed the future recoupability of artist's advances and artists' contracts and determined that a provision should be made at 31 March 2008. The exceptional items have no impact on tax or minority interests.

8. Interest receivable

	2008	2007
	£000	£000
Bank	42	76
Interest receivable from group undertakings	28,811	12,684
	28,853	12,760

Notes to the financial statements (continued)

at 31 March 2008

9. Interest payable and similar charges

	2008	2007
	£000	£000
Bank overdraft wholly repayable within five years	163	57
Interest payable to group undertakings	19,917	5,529
Other external	153	202
	20,233	5,788

10. Tax

(a) Tax on loss on ordinary activities

	2008	2007
	£000	£000
UK corporation tax		
UK corporation tax on losses of the period	–	–
Foreign tax		
Current year	–	–
Adjustments in respect of previous periods	–	–
Total current tax charge	–	–
Deferred tax		
Originating and reversal of timing differences	–	–
Effect of changes in tax rate on opening liability	–	–
Changes in recoverable amounts of deferred tax assets	–	–
	–	–
Tax on loss on ordinary activities	–	–

(b) Factors affecting current tax charge

	2008	2007
	£000	£000
Loss on ordinary activities before tax	(22,103)	(27,164)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2007 – 30%)	(6,631)	(8,149)
Effect of:		
Disallowable expenditure	3,720	4,576
Group relief surrendered for payment of greater than 30%	2,911	–
Adjustments in respect of previous year	–	3,573
Total current tax charge	–	–

Notes to the financial statements (continued)

at 31 March 2008

10. Tax (continued)

(c) Factors affecting future tax charge

As part of Maltby Capital Limited, the company may receive or surrender losses by way of group relief. This receipt or surrender may be made with or without charge.

(d) Deferred tax

At the balance sheet date the company had unused tax losses of £12,483,000 (2007: £27,192,000) available for offset against future profits.

11. Intangible fixed assets

	Catalogue costs	*Goodwill*	*Total*
	£000	*£000*	*£000*
Cost:			
At 31 March 2007 and at 31 March 2008	5,159	190	5,349
Amortisation:			
At 31 March 2007	5,151	190	5,341
Provided during the year	8	–	8
At 31 March 2008	5,159	190	5,349
Net book value:			
At 31 March 2008	–	–	–
At 31 March 2007	8	–	8

Catalogue costs are amortised over the lesser of their estimated useful economic lives and 20 years.

Notes to the financial statements (continued)

at 31 March 2008

12. Tangible fixed assets

	Freehold property £000	*Leasehold property £000*	*Equipment, plant and vehicles £000*	*Total £000*
Cost:				
At 31 March 2007	8,993	1,082	85,750	95,825
Additions	64	–	2,331	2,395
Transfers	–	–	(4,058)	(4,058)
Other movements	–	–	1,119	1,119
At 31 March 2008	9,057	1,082	85,142	95,281
Depreciation:				
At 31 March 2007	2,757	405	59,550	62,712
Provided during the year	405	30	7,560	7,995
Impairment (exceptional cost)	–	–	458	458
Transfers	–	–	(2,655)	(2,655)
At 31 March 2008	3,162	435	64,913	68,510
Net book value:				
At 31 March 2008	5,895	647	20,229	26,771
At 31 March 2007	6,236	677	26,200	33,113

13. Investments

	2008 £000
Cost and net book value:	
At 31 March 2008 and 31 March 2007	49,213

Notes to the financial statements (continued)

at 31 March 2008

13. Investments (continued)

The company's principal subsidiary undertakings at 31 March 2008 were:

Subsidiary undertakings	*Nature of business*	*Proportion of ordinary shares owned*
EMI Music International Services Limited	Service company	100%
Chrysalis Records International Limited	Dormant	50%
EMI Global Limited	Dormant	99%
EMI Records Procurement Services Limited	Service company	100%
Food Limited	Dormant	100%
Music for Pleasure Limited	Dormant	100%
Trooper Enterprises Limited	Record company	75%

14. Stocks

	2008	*2007*
	£000	*£000*
Finished goods and goods for resale	2,683	3,434

The replacement cost of the above stocks is not materially different from the value reported.

15. Debtors

	2008	*2007*
	£000	*£000*
Trade debtors	25,866	18,189
Artist advances	12,726	40,401
Amounts owed by fellow subsidiary undertakings	145,942	57,119
Other debtors and prepayments	7,454	33,033
Interest-free loans to subsidiary undertakings	17,436	17,783
Interest-free loans to parent undertaking	289	225
Interest-bearing loans to other group undertakings	4,643	–
Interest-bearing loans to subsidiary undertakings	21,388	25,756
Interest-bearing loan to parent undertaking	213,595	229,330
	449,339	421,836

Included within artist advances of £12.7m at 31 March 2008 are advances of £2.5m which are expected to be recovered more than 12 months after the balance sheet date.

Loans to fellow subsidiary undertakings are not the subject of a loan note nor are they repayable under fixed terms. Therefore, they may be recoverable after more than one year.

Notes to the financial statements (continued)

at 31 March 2008

16. Creditors: amounts falling due within one year

	2008	*2007*
	£000	*£000*
Trade creditors	3,403	14,968
Royalties payable	56,335	64,558
Amounts payable to fellow subsidiary undertakings	3,030	4,031
Accruals and deferred income	18,452	34,690
Interest-free loan from parent undertaking	6,542	11,356
Interest-bearing loan from parent undertaking	69,570	83,375
Interest-bearing loans from other group undertakings	1,306	–
Interest-free loans from subsidiary undertakings	165,004	156,636
	323,642	369,614

The interest-bearing loan bears interest at a UK prime rate. All loans are repayable on demand.

17. Creditors: amounts falling due after more than one year

	2008	*2007*
	£000	*£000*
Trade creditors	1,660	1,913
200,000,000 3.75% cumulative redeemable preference shares of £1 each	200,000	200,000
	201,660	201,913

The preference shares, which were issued at par, are redeemable with notice of one month.

The preference shares carry no votes at meetings unless the dividend thereon is six months or more in arrears or the business of the meeting includes a resolution for the winding-up of the company or reducing its share capital, in which event the holder will be entitled to one vote per share on a poll.

On a winding-up of the company, the preference shareholders have a right to receive, in preference to any payments to the ordinary shareholders, £1 per share plus any accrued dividend.

A dividend of 3.5% is payable on the preference shares annually. The directors of the company which owns 100% of the preference shares, EMI Limited, have formally waived the right to receive all dividends since the shares were issued, and therefore no liability in respect of these dividends has been recognised in the financial statements.

18. Provisions for liabilities

	£000	£000	£000
	Reoganisation	Audit claims	Total
Provisions at 31 March 2007	25,609	794	26,403
Charged to profit and loss account	937	1,826	2,763
Utilised during the year	(5,553)	(1,031)	(6,584)
Transferred to other EMI companies	(18,152)	–	(18,152)
Provisions at 31 March 2008	2,841	1,589	4,430

Notes to the financial statements (continued)

at 31 March 2008

18. Provisions for liabilities (continued)

The balance at 31 March 2008 includes provisions for future closure and reorganisation of operations of £2,841,000 (2007 – £25,609,000) and future audit claims of £1,589,000 (2007 – £794,000).

The majority of the reorganisation and audit claims provisions will be utilised in the short term.

19. Share capital

	2008	*2007*
	£000	*£000*
Authorised:		
Ordinary shares of £1 each	112,605	3,340
Allotted, called up and fully paid:		
Ordinary shares of £1 each	112,605	2,605

On 30th November 2007 the Company increased its authorised share capital by £89,265,000 and issued to its parent company, Virgin Records Limited, 90,000,000 ordinary £1 shares, and on 21st January 2008 increased its authorised share capital by £20,000,000 and issued 20,000,000 ordinary £1 shares. The consideration for each issue was an inter-company loan from Virgin Records Limited. Subsequently, the Company offset its inter-company loans with Virgin Records Limited.

20. Share based payments

Equity-settled share option schemes

Closure of Scheme

Following the change of control in EMI Records Limited, all share options vested and all amounts due were paid. At 31 March 2008, there were no outstanding balances in relation to the scheme.

Notes to the financial statements (continued)

at 31 March 2008

21. Reconciliation of shareholders' deficit and movement on reserves

	Share capital £000	*Profit and loss account £000*	*Total share-holders' deficit £000*
At 31 March 2007	2,605	(60,828)	(58,223)
Shares Issued	110,000	–	110,000
Loss for the year	–	(22,103)	(22,103)
At 31 March 2008	112,605	(82,931)	29,674

22. Obligations under leases and hire purchase contracts

At 31 March 2008, annual commitments under operating leases in respect of land and buildings were as follows:

	2008 £000	*2007 £000*
Expiring in less than one year	3,471	3,471
Expiring in the second to fifth years inclusive	15,148	14,832
Expiring after the fifth year	31,263	39,344
	49,882	57,647

At 31 March 2008, annual commitments under other operating leases were as follows:

	2008 £000	*2007 £000*
Expiring in less than one year	316	448
Expiring in the second to fifth years inclusive	274	561
	590	1,009

23. Contingent liabilities

Within the music industry a variety of claims arise from time to time in the normal course of business. Some have little or no foundation in fact or law and others cannot be quantified. Provisions have been made in the financial statements for those claims against the company which the directors consider are likely to result in significant liabilities.

At 31 March 2008 the company had provided a guarantee to its clearing bank in respect of borrowings of other Maltby Capital Limited UK group undertakings. The guarantee was limited to the amount of cash held by the company with the bank. This amounted to £31,400,000 (2007 – £32,103,000).

Notes to the financial statements (continued)

at 31 March 2008

24. Pension commitments

As noted in the Company accounting policies, the Company is a member of the EMI Group Pension Fund (UK fund), a defined benefit pension scheme for EMI Group Ltd (formerly EMI Group plc) and its subsidiaries in the UK. As the Company is unable to identify its share of the underlying assets and liabilities of the UK fund, in accordance with FRS 17 it has accounted for it as a defined contribution scheme. The cost of contributions by the Company to the UK fund during the year was £4,252,000 (2007 - £10,549,000).

As at 31 March 2008, the UK fund had Scheme assets with a fair value of £958m (2007 - £955m) and a present value of defined benefit obligations of £847m (2007 - £962m) resulting in a net pension asset of £111m (2007 – liability of £7m). The date of the last actuarial valuation of scheme assets and obligations was 31 March 2006, and was based on the projected unit method.

The cost of the contributions to defined contribution schemes during the year was £720,000 (2007 - £499,000).

25. Financial commitments

The group has commitments, which are largely performance related, to pay advances to artists and repertoire owners amounting to approximately £85,694,000 at 31 March 2008 (2007 – £93,075,000).

26. Related party transactions

The company has taken advantage of the exemption under Financial Reporting Standard 8, "Related Party Disclosures" (FRS 8), not to disclose related party transactions between wholly owned group undertakings.

27. Charge over assets

EMI Records Limited acceded, on 28 January 2008, to a debenture dated 30 August 2007 (amended, supplemented, novated, extended, restated or varied from time to time) and made between, amongst others, Maltby Acquisitions Limited (formerly known as Maltby Limited) and Citibank, NA, London Branch as Security Agent, pursuant to which the company charged, by way of mortgage or fixed charge or assign by way of security (as appropriate) all of their right, title and interest in certain assets, charge all or substantially all of their present and future assets and undertaking by way of first floating charge in favour of the Security Agent to secure the repayment of the Secured Liabilities (as defined thereon) and covenant that they will, on demand, pay and discharge the Secured Liabilities.

28. Events after the balance sheet date

Since the period end, the fundamental restructuring and strategic review of EMI, which followed the acquisition by Maltby Limited, has continued.

The restructuring includes repositioning EMI Music's labels to ensure Artists & Repertoire is a primary focus, developing new partnerships with artists that are based on transparency and trust, moving to a global functional structure for each of the Group's key activities including marketing, manufacturing, sales and distribution and eliminating significant duplications to simplify press. Significant costs associated with this restructuring are expected to be incurred in the financial year ending 31 March 2009.

Notes to the financial statements (continued)

at 31 March 2008

29. Parent undertaking

The company's immediate parent undertaking is EMI Limited, a company incorporated in England and Wales.

The ultimate parent undertaking of the group of undertakings for which group financial statements are drawn up and of which the company is a member is Maltby Capital Limited. This is the smallest and largest group of which the company is a member and for which group financial statements are prepared. Copies of Maltby Capital Limited's financial statements can be obtained from Maltby Capital Limited, 27 Wrights Lane, London W8 5SW.