Company number 00411080

HMV Retail Limited

Report and Accounts

As at 28 April 2007

COMPANY INFORMATION

DIRECTORS

N I Bright
M G Lymath
S R Fox (appointed 28 September 2006)
A J Giles (resigned 28 September 2006)

SECRETARY

E Marriner

REGISTERED OFFICE

Shelley House
2-4 York Road
Maidenhead
Berkshire
SL6 1SR

COMPANY NUMBER

00411080

AUDITORS

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

DIRECTORS' REPORT

The Directors submit their report and audited financial statements for the 52 weeks ended 28 April 2007, which were approved on behalf of the Board on 6 July 2007

Business review

The Company is engaged in a business that primarily consists of the retailing of music, DVD, and related products through its Japanese branch

Up to 29 April 2006 the results of HMV Japan were reported in the accounts of HMV Music Limited, the parent company, via an agency agreement During the year ended 29 April 2006, a legal review of this agency agreement was undertaken and was concluded in May 2006 As a result the Company was advised that the agreement had been void ab initio and for clarity the agreement was terminated With effect from 30 April 2006, the trading result of the Japan Branch has been reflected in the results of the Company

At the end of the period under review, the Company operated 62 stores in Japan trading from a total 400,400 square feet In addition, the Company has a successful online retail business which contributed 24% of the Company's total sales Eight stores were opened in the financial year and three stores were closed

During the period the Japanese entertainment markets were weak, with the music market declining by 5 8% and the DVD market down by over 13% However, the Company outperformed in both markets, gaining a 0 5% share in music and 2 1% in DVD Overall, the Company continues to trade successfully and will continue its existing business for the foreseeable future

The loss after deducting taxation amounted to £0 3m (2006 £nil) The Directors recommend that no final dividend be declared and that the loss be transferred to reserves.

Principal risks and uncertainties

The Board of the ultimate parent undertaking, HMV Group plc, has a policy of continuous identification and review of key business risks and uncertainties It oversees the development of processes to ensure that these risks are managed appropriately and operational management are delegated with the tasks of implementing these processes and reporting to the Board on their outcomes The principal risks identified by the Board relevant to the Company are general sensitivity to changes in economic conditions, the impact on the Company of the growth of digital delivery of content, monitoring agreements with key suppliers, maintaining and developing information technology systems and attracting, motivating and retaining key staff

Directors

The names of the Directors as at the date of this Report are shown on page 1

None of the Directors had any interests in the shares of the Company

Policy on payment of creditors

The Company does not impose standard payment terms on its suppliers but agrees specific terms with each and ensures that each supplier is made aware of such terms It is the Company's policy to pay its suppliers in accordance with the terms that they have agreed The number of days' purchases outstanding at 28 April 2007 is calculated as 81 days (2006 nil)

Employee policies

Although the Company's management and staff have their contracts of employment with other group undertakings, all have been seconded to the Company and their costs are recharged to, and borne by, the Company.

The Company's policies in respect of its staff are to develop the best people, putting them in the right positions with a significant level of delegated authority and supporting them with the infrastructure and technology required to perform at the highest levels and at the lowest costs with the quickest response time

In order to promote employee involvement in the Company, regular meetings are held between local management and employees to allow a free flow of information and ideas

The Company encourages staff involvement in the performance of its ultimate parent undertaking, HMV Group plc, via a combination of employee bonus and share schemes

DIRECTORS' REPORT (CONTINUED)

Charitable donations

The Company did not make any charitable donations in the period under review (2006 £nil) It is Company policy not to make donations to political parties and therefore no political donations were made during the period

Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 1 Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware, and
- each Director has taken all steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information

Special Notice having been received under section 379 and pursuant to 388(i)(c) of the Companies Act 1985, it will be proposed at the Annual General Meeting that Ernst & Young, Chartered Accountants, be reappointed as the auditors of the Company

By order of the Board

E Marriner

Secretary
6 July 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the report and financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union

The Directors are required to prepare financial statements for each financial year that present fairly the financial position of the Company and the financial performance and the cash flows of the Company for that period In preparing those financial statements, the Directors are required to

(i) select suitable accounting policies and then apply them consistently,

(ii) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,

(iii) provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance,

(iv) state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements

The Directors are responsible for keeping proper accounting records which 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 and Article 4 of the IAS Regulation 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 AUDITOR'S REPORT TO THE SHAREHOLDERS OF HMV RETAIL LIMITED

We have audited the Company's financial statements for the period ended 28 April 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of recognised income and expense and the related notes 1 to 28 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' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

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, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements

We also 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

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 judgments 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

Opinion
In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 28 April 2007 and of its loss for the period 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

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

INCOME STATEMENT

For the 52 weeks ended 28 April 2007 and 29 April 2006

	Notes	2007 £000	2006 £000
Revenue	4	**209,686**	-
Cost of sales		**(193,882)**	-
Gross profit		**15,804**	-
Administrative expenses		**(17,291)**	-
Operating loss	5	**(1,487)**	-
Finance income	9	**60**	-
Finance costs	9	**(455)**	-
Loss before taxation		**(1,882)**	-
Taxation	10	**1,575**	-
Loss for the period attributable to the parent company		**(307)**	-

See Accounting Policies on pages 9-11 for the description of the 2007 and 2006 reporting periods

STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the 52 weeks ended 28 April 2007 and 29 April 2006

	Notes	2007 £000	2006 £000
Loss for the period		**(307)**	-
Foreign exchange translation differences	22	**(518)**	-
Net expense recognised directly in equity		**(518)**	-
Total recognised income and expense for the period		**(825)**	-

BALANCE SHEET

As at

	Notes	28 April 2007 £000	29 April 2006 £000
Assets			
Non-current assets			
Investments	12	-	-
Property, plant and equipment	11	14,056	-
Deferred income tax asset	10	6,214	-
Trade and other receivables	13	6,311	-
		26,581	-
Current assets			
Inventories	14	19,302	-
Trade and other receivables	13	7,851	404
Cash and short-term deposits	15	7,085	-
		34,238	-
Total assets		60,819	404
Liabilities			
Current liabilities			
Trade and other payables	16	(39,099)	-
Current income tax payable		(34)	-
Interest bearing loans and borrowings	17	(21,913)	-
Provisions	18	(288)	-
Total liabilities		(61,334)	-
Net (liabilities) assets		(515)	404
Equity			
Equity share capital	20	404	404
Foreign currency translation reserve	22	(518)	
Retained earnings	22	(401)	-
Total equity	22	(515)	404

The financial statements were approved by the Board of Directors on 6 July 2007 and were signed on its behalf by

N I Bright
Director

S R Fox
Director

CASH FLOW STATEMENT

For the 52 weeks ended 28 April 2007 and 29 April 2006

	Notes	2007 £000	2006 £000
Cash flows from operating activities			
Operating profit		(1,487)	-
Depreciation		5,139	-
Operating asset write down		296	-
Loss on disposal of property, plant and equipment		261	-
Equity-settled share-based payment credit		(94)	-
		4,115	-
Movement in inventories		(389)	-
Movement in trade and other receivables		7,554	-
Movement in trade and other payables		(4,995)	-
Movement in provisions		(536)	-
Cash generated from operations		5,749	-
Income tax received		99	-
Net cash flows from operating activities		5,848	-
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,415)	-
Cash transferred in from other Group company		7,850	-
Interest received		60	-
Net cash flows from investing activities		2,495	-
Cash flows from financing activities			
Movements in short term facilities		(3,861)	-
Movement in loans from ultimate parent company		4,135	
Interest paid		(455)	-
Net cash flows from financing activities		(181)	-
Net increase (decrease) in cash and cash equivalents	19	8,162	-
Opening cash and cash equivalents		-	-
Effect of exchange rate changes		(1,077)	-
Closing cash and cash equivalents		7,085	-

NOTES TO THE FINANCIAL STATEMENTS

1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements of HMV Retail Limited for the period ended 28 April 2007 were authorised for issue by the Board on 6 July 2007 and the balance sheet was signed on the Board's behalf by N I Bright and S R Fox HMV Retail Limited is incorporated and domiciled in England and Wales

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985

2. Accounting Policies

Basis of Preparation

The financial statements of the Company are made up to the Saturday on or immediately preceding 30 April each year Consequently, the financial statements for the current period cover the 52 weeks ended 28 April 2007, whilst the comparative period covered the 52 weeks ended 29 April 2006 The financial statements are prepared in accordance with applicable accounting standards and specifically in accordance with the accounting policies set out below

The financial statements are presented in Pounds Sterling and are rounded to the nearest thousand except where otherwise indicated

The Company is exempt from preparing group accounts as it is itself a subsidiary undertaking under section 228 of the Companies Act 1985 These accounts present information about the Company as an individual undertaking and not about its group

As at 28 April 2007 the company had net liabilities of £515,000 The directors of HMV Group Plc, the ultimate parent company, have confirmed that they will continue to support the Company to enable it to meet its third party liabilities, as they fall due, for a period of 12 months from the date of approval of these financial statements

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year The nature of estimation means that actual outcomes could differ from those estimates

Investments in subsidiaries

Investments in subsidiaries are recognised at cost less impairments booked Income is recognised from these investments only in relation to distributions received from post-acquisition profits Distributions received in excess of post-acquisition profits are deducted from the cost of the investment

Revenue

Revenue represents the value of goods supplied, less discounts given, and is recognised when goods are delivered and title has passed It also includes commission earned on ticket sales and similar activities Revenue excludes value added tax ("VAT") and similar sales-related taxes

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate Dividend income is recognised when the right to receive payment is established Rental income from sub-let properties is recognised on a straight line basis over the period of the sublease

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transactions Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling at period end rates The resulting foreign exchange differences are dealt with in the determination of profit (loss) for the period

The functional currency of the Japanese branch is the Japanese Yen The results of the Japanese branch are translated into sterling, the presentation currency, using average exchange rates and period end rates are used to translate the assets and liabilities as HMV Retail Limited is a UK registered company Differences on translation are recognised as a separate equity reserve On disposal of an overseas business, the cumulative exchange differences for that business are recognised in the income statement as part of the profit or loss on disposal

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Property, plant and equipment

The capitalised cost of property, plant and equipment includes only those costs that are directly attributable to bringing an asset to its working condition for its intended use

Depreciation of property, plant and equipment is calculated on cost, at rates estimated to write off the cost, less the estimated residual value, of the relevant assets by equal annual amounts over their estimated useful lives

The annual rates used are

Leasehold improvements	Period of the lease
Plant, equipment and vehicles	10 to 33 $^{1}/_{3}$%

The carrying values of property, plant and equipment are reviewed for material impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively

Leased assets

In respect of property operating leases, benefits received and receivable as an incentive to sign a lease, such as rent-free periods, premiums payable and capital contributions, are spread on a straight line basis over the lease term All other operating lease payments are charged directly to the income statement on a straight line basis over the lease term The Company has a number of lease agreements in which the rent payable is contingent on revenue, which is expensed in the period in which it is incurred

Inventories

Inventories are stated at the lower of cost and net realisable value on a first-in, first-out basis Net realisable value is based on estimated selling prices less further costs to be incurred to disposal

Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date

Deferred tax

Deferred income tax is recognised on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes

Deferred tax liabilities are generally recognised for all temporary differences and deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are not recognised for temporary differences associated with investments in subsidiaries and branches, as the Company has determined that undistributed profits will not be distributed in the foreseeable future

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and is not discounted

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Taxation (continued)

Taxation is charged or credited directly to equity if it relates to items that are themselves charged or credited directly to equity, otherwise it is recognised in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority

Cash and cash equivalents

Cash and short-term deposits comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less For the purposes of the cash flow statement, cash and cash equivalents consist of cash and short-term deposits less bank overdrafts that are payable on demand

Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method

Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects the risks specific to the liability

Pension costs

The Company operates an Accrued Retirement Benefit scheme which is open to all staff on attainment of a specified employment grade The Company accrues a percentage of pensionable pay each year based on the individual's length of service to be held until employment ceases, at which point the employee receives the accrued amount

Share-based payments

A number of share-based payment schemes are operated by the ultimate parent undertaking, HMV Group plc, in which the Company's employees participate The Company recognises the transfer of equity instruments to its employees as share-based payment transactions within the scope of IFRS 2 *Share-based Payments*

The cost of equity-settled transactions with employees granted on or after 7 November 2002, which had not vested by 1 January 2005, is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined by using an appropriate pricing model

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market performance conditions, and hence the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity No expense is recognised for awards that do not ultimately vest.

3. Segmental information

In the opinion of the Directors, the Company operates in only one business segment – retailing The Company operates in only one geographical location - Japan

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Revenue

Revenue disclosed in the income statement is analysed as follows

	2007 £000	2006 £000
Sale of goods	**209,686**	-
Sublease rental income	**965**	-
Revenue	**210,651**	-
Finance income	**60**	-
Total revenue	**210,711**	-

5. Operating loss

	2007 £000	2006 £000
Operating loss is stated after charging (crediting)		
Depreciation of property, plant and equipment	**5,139**	-
Cost of inventories recognised as expense	**150,166**	-
Write down of inventories	**603**	-
Operating lease rentals		
Minimum rentals	**11,797**	-
Percentage rentals	**3,699**	-
Sublease rentals	**(965)**	-

The Company leases stores under non-cancellable operating lease agreements that are generally subject to periodic rent review These agreements provide for either or both minimum rentals and percentage rentals based on sales performance

6. Fees to auditors

	2007 £000	2006 £000
Audit fees	**56**	-
Non-audit fees	**19**	-
	75	-

7. Directors' emoluments

	2007 £000	2006 £000
Directors' emoluments	-	-

No Director received any remuneration during the year in respect of his services to the Company The Directors' remuneration for services to the Group as a whole is bourne by a fellow Group company

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Employee costs

	2007 £000	2006 £000
Wages and salaries	**20,742**	-
Social security costs	**2,068**	-
Other pension costs (see note 25)	**325**	-
	23,135	-

Although the Company's management and staff have their contracts of employment with other group undertakings, all have been seconded to the Company and their costs are recharged to, and borne by, the Company in full

Included in wages and salaries is a total credit for equity-settled share-based payments of £94,000 (2006 £nil) A credit has arisen in the current period as performance conditions for awards vesting have not been met and management have revised their estimate of the achievability of performance conditions relating to awards vesting in future periods

The average number of people employed by the Company during the period was 1,565 (2006 nil)

9. Net finance costs

	2007 £000	2006 £000
From parent and fellow subsidiary undertakings	**15**	-
Bank interest receivable	**45**	-
Total finance income	**60**	-
Bank loans and overdrafts	**(413)**	-
To parent and fellow subsidiary undertakings	**(42)**	-
Total finance costs	**(455)**	-
Net finance costs	**(395)**	-

10. Taxation

	2007 £000	2006 £ '000
Taxation recognised in the income statement.		
UK, current year		
Corporation tax	**(405)**	-
	(405)	-
Overseas tax, current year		
Corporation tax	**38**	-
Under provision in prior periods	**1**	-
Total current tax	**(366)**	-
Deferred tax, overseas		
Current year	**(728)**	-
Under provision in prior periods	**(481)**	-
Total deferred tax	**(1,209)**	-
Total taxation income in the income statement	**(1,575)**	-

The effective tax rate on ordinary activities is 83 7% (2006 nil)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Taxation (continued)

The tax charge is reconciled with the standard rate of UK corporation tax as follows

	2007 £'000	2006 £ 000
Loss before taxation	(1,882)	-
Corporation tax at statutory rate of 30%	(565)	-
Effects of		
Permanent disallowables	77	-
Losses utilised	(398)	-
Overseas income taxed at different rate	(209)	-
Prior period under provision	1	-
Temporary differences relating to prior year periods	(481)	-
Total tax credit	(1,575)	-

Deferred Tax
The deferred tax included in the balance sheet is as follows

	2007 £'000	2006 £'000
Deferred tax asset		
Accelerated depreciation for tax purposes	2,714	
Other temporary differences	1,511	-
Tax losses carried forward	1,989	-
	6,214	-

Deferred tax in the income statement
The deferred tax included in the income statement is as follows

	2007 £'000	2006 £"000
Accelerated depreciation for tax purposes	(440)	-
Other temporary differences	1,010	-
Tax losses carried forward	(1,779)	-
	(1,209)	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Property, plant and equipment

	Plant, equipment and vehicles	Total
	£000	£000
Cost at 30 April 2005 and 29 April 2006	-	-
Transfer in from other Group company	48,281	48,281
Currency retranslation	(6,757)	(6,757)
Disposals	(1,393)	(1,393)
Additions	5,415	5,415
Cost at 28 April 2007	**45,546**	**45,546**
Depreciation at 30 April 2005 and 29 April 2006	-	-
Transfer in from other Group company	(31,735)	(31,735)
Currency retranslation	4,547	4,547
Charge for period	(5,139)	(5,139)
Impairment loss	-	-
Disposals	837	837
Depreciation at 28 April 2007	**(31,490)**	**(31,490)**
Net book value at 28 April 2007	**14,056**	**14,056**
Net book value at 30 April 2005 and 29 April 2006	-	-

12. Investments: subsidiaries

	Cost	Provisions	Net
	£000	£000	£000
At 29 April 2006 and 30 April 2005	614	(614)	-
Disposal	(614)	614	-
At 28 April 2007	-	-	-

During the period, all of the subsidiary undertakings of the Company (listed below) were sold to the immediate parent undertaking No profit or loss arose on this transaction All of these subsidiaries are registered in England and Wales and they were all wholly owned They are also all dormant.

Name of undertaking
HMV Limited
HMV Direct Limited
HMV Northern Ireland Limited
Hatchards UK Limited
Dillons Limited
Dillons UK Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Trade and other receivables

	2007 £000	2006 £000
Non-current		
Other receivables	6,311	-
		-
Current		
Trade receivables	5,317	-
Amounts owed by parent and fellow subsidiary undertakings	404	404
Other receivables	1,217	-
Prepayments and accrued income	913	-
	7,851	404
	14,162	404

The carrying value of trade and other receivables approximates to fair value

14. Inventories

Inventories primarily comprise finished goods and goods for resale The replacement cost of inventories is considered to be not materially different from the balance sheet value

15. Cash and short-term deposits

For the purpose of the cash flow statement, cash and cash equivalents comprise the following

	2007 £000	2006 £000
Cash at bank and in hand	7,085	-

Cash at bank earns interest at floating rates based on daily bank deposit rates

16. Trade and other payables

	2007 £000	2006 £000
Current		
Trade payables	1,289	-
Amounts owed to parent and fellow subsidiary undertakings	31,221	-
Other payables	6,589	-
	39,099	-

The carrying value of trade and other payables approximates to fair value

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Interest bearing loans and borrowings

	2007	2006
	£000	£000
External loans and borrowings	**21,913**	-
	21,913	-

18. Provisions

	Total
	£000
At 29 April 2006	-
Transfer in from other Group company	913
Provisions utilised	(844)
Charged during the year	308
Currency retranslation	(89)
At 28 April 2007	**288**

Provisions consist of amounts in respect of store closures and restructuring The utilisation of provisions in the current year largely reflects store closures and restructuring activity The £308,000 provision created in the year was in respect of restructuring costs All provisions are expected to be utilised in the forthcoming year

19. Additional cash flow information

Movements in the Company's net debt position are as follows

	At 30 April 2005 and 29 April 2006	Cash flow	Loans transferred from other Group company	Exchange movements	At 28 April 2007
	£000	£000	£000	£000	£000
Cash and cash equivalents	-	8,162	-	(1,077)	**7,085**
Loans and borrowings	-	3,861	(29,499)	3,725	**(21,913)**
Net debt	-	12,023	(29,499)	2,648	**(14,828)**

20. Share capital

	28 April 2007	29 April 2006
	£000	£000
Authorised 550,000 ordinary shares of £1 each	**550**	550
Allotted, called up and fully paid 404,000 ordinary shares of £1 each	**404**	404

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Share based payments

Equity-settled share option plan

Certain of the Company's employees participate in an equity-settled share option plan of the ultimate parent undertaking, HMV Group plc

Until the Initial Public Offering of HMV Group plc in 2002 the Group operated the HMV Group plc Senior Executive Share Option Scheme (the '1998 Scheme') All grants made under the 1998 scheme were subject to performance targets, as follows·

- Grants made on 7 September 2001 became exercisable in tranches upon and following the Initial Public Offering of the Company in May 2002 (achievement of the Initial Public Offering being the performance target) The first tranche of these options became exercisable upon the Initial Public Offering The second tranche became exercisable on the first anniversary of the date of Initial Public Offering (May 2003) and the third tranche became exercisable on the second anniversary of the date of Initial Public Offering (May 2004)

Prior to the Initial Public Offering a new executive share option scheme, the HMV Group plc 2002 Executive Share Option Scheme (the '2002 Scheme') was adopted This scheme has been used for grants of options since 2002

Options to acquire shares under the 2002 Scheme have been granted on an annual basis thus ensuring reward is spread over a number of years and is allied to the long-term growth in shareholder value Options were granted at the five day average of the market value of the HMV Group plc's shares on the date of grant. The options can normally only be exercised after three years and then subject to the achievement of earnings per share targets imposed at the date of grant. These allow that 40% of the option shall be exercisable if the HMV Group plc's adjusted basic earnings per share exceeds the growth in the Retail Prices Index by at least 3% per annum 100% of the option shall be exercisable if the HMV Group plc's adjusted basic earnings per share growth exceeds the growth in the Retail Prices Index by at least 7% per annum For all options granted to date, earnings per share performance will be assessed on an adjusted UK GAAP basis Vesting will occur on a straight-line basis between these two points If the options remain unexercised after a period of 10 years from the date of grant, the options expire Options are forfeited if the employee leaves the Group before the option vests or before vested options are exercised

The credit for share options in respect of employee services during the period ended 28 April 2007 was £172,000 A credit has arisen in the current period as performance conditions for awards vesting have not been met and management have revised their estimate of the achievability of performance conditions relating to awards vesting in future periods

The movements in the number of share options during the year are detailed in the table below The options outstanding at 28 April 2007 had a weighted average exercise price of 204p and a weighted average remaining contractual life of 6 6 years

	2007	2007
	Options	Weighted average exercise price
	Number	Pence
Outstanding at beginning of period	-	-
Transferred in from other Group companies	3,777,734	186
Lapsed during the period	(1,157,493)	145
Outstanding at end of the period[1]	2,620,241	204
Exercisable at end of the period	1,081,050	154

1 Included within this balance are options over 1,081,050 shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002 These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Share based payments (continued)

	2007	2007
	Options outstanding	Weighted average remaining contractual life
	Number	Years
1998 Senior Executive Share Option Scheme		
Exercise price 18 73p	96,078	4.4
2002 Executive Share Option Scheme		
Exercise price 167p	984,972	5.1
Exercise price 237p	734,395	7.2
Exercise price 242p	804,796	8.2
	2,620,241	6.6

The 2002 Executive Share options with an exercise price of 237p would be exercisable from 4 August 2007 subject to vesting conditions based on the Group's financial performance for the three years to 28 April 2007 However, as the minimum performance conditions have not been met, these options will lapse in the 2007/08 financial year

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome

Equity-settled deferred annual bonus

Certain of the Company's senior management are eligible for a deferred annual bonus that is equity-settled in the shares of the ultimate parent undertaking, HMV Group plc This is the HMV Group plc Incentive Plan for Senior Executives (HIPS) Under this arrangement, a deferred annual bonus is awarded in shares, with the number of shares determined by reference to the market value of shares at the time the award is made, not when it is paid No adjustment to value is made for expected dividend income during the vesting period The deferred award normally vests following the third anniversary of the end of the financial year in which the award is made, subject to the achievement of certain profit related targets and the performance of the individual over the vesting period

The charge in respect of deferred awards during the period ended 28 April 2007 was £22,000

The number and weighted average grant prices of, and movements in, deferred share awards during the year are as follows

	2007	2007
	Share awards	Weighted average grant price
	Number	Pence
Outstanding at beginning of period	-	-
Granted during the period	220,911	165
Outstanding at end of the period	220,911	165

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Share based payments (continued)

Equity-settled Performance Share Plan (PSP)

The HMV Performance Share Plan (PSP) was introduced during the year and replaced the 2002 Executive Share Option Scheme Under the PSP certain employees are granted an award of shares, which vest after three years provided that preset performance criteria are met The number of shares awarded is determined by reference to the market value of shares, adjusted for expected dividend income during the vesting period The charge in respect of the PSP during the year ended 28 April 2007 was £56,000

The number and weighted average grant prices of, and movements in, PSP awards during the year are as follows

Group	2007	2007
	Share awards	Weighted Average grant price
	Number	Pence
Outstanding at beginning of period	-	-
Granted during the period	575,540	162
Lapsed during the period	(6,989)	162
Outstanding at end of the period	568,551	162

22. Reconciliation of movements in equity

	Share capital	Foreign currency translation reserve	Retained earnings	Total
	£000	£000	£000	£000
At 30 April 2005 and 29 April 2006	404	-	-	404
Total recognised income and expense for the period	-	(518)	(307)	(825)
Credit for share-based payments	-	-	(94)	(94)
At 28 April 2007	404	(518)	(401)	(515)

23. Contingent liabilities

The management of HMV Retail Limited is not aware of any legal or arbitration proceedings pending or threatened against the Company which may result in any liabilities significantly in excess of provisions in the financial statements

24. Agency Agreement

Up to 29 April 2006 the results of HMV Japan were reported in the accounts of HMV Music Limited, the parent company, via an agency agreement During the year ended 29 April 2006, a legal review of this agency agreement was undertaken and was concluded in May 2006 As a result the Company was advised that the agreement had been void ab initio and for clarity the agreement was terminated With effect from 30 April 2006, the trading result of the Japan Branch has been reflected in the results of the Company

25. Pension arrangements

HMV Retail Limited operates an Accrued Retirement Benefit scheme which is open to all staff on attainment of a specified employment grade The Company accrues a percentage of pensionable pay based on the individual's length of service each year to be held until employment ceases, at which point the employee receives the accrued amount. During the financial year ended 28 April 2007, the Company charged £325,000 to the profit and loss account and at the year end the accrued provision was £1,302,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Obligations under operating leases

The Company operates entirely from properties in Japan under commercial operating leases These lease commitments can be determined by either the lessor or the lessee on giving notice at anytime and are, therefore, shown as expiring not later than one year

	2007 £000	2006 £000
Not later than one year	**11,152**	-
Between two and five years inclusive	-	-
After five years	-	-
	11,152	-

The Company has also sublet space in certain properties The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 28 April 2007 is £904,000 (2006 £nil)

27. Related party transactions

During the period the Company entered into transactions in the ordinary course of business with related parties Transactions entered into and balances outstanding at the end of the period are as follows

	Services rendered from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
With parent and fellow subsidiaries			
2007	**4,428**	**404**	**31,221**
2006	-	-	-

A number of share-based payment schemes are operated by the ultimate parent undertaking, HMV Group plc, in which the Company's employees participate The Company recognises the transfer of equity instruments to its employees as share-based payment transactions within the scope of IFRS 2 *Share-based Payments* Further details are given in note 21

Remuneration of key management personnel

The remuneration of the Company's key management personnel is set out below

	2007 £000	2006 £000
Short-term employee benefits	**1,130**	-
Post-employment benefits	**35**	-
Deferred shares	**99**	-
	1,264	-

28. Parent Undertaking

The parent undertaking of the group of undertakings for which group accounts are drawn up and of which the Company is a member is HMV Group plc, which is the ultimate parent undertaking registered in England and Wales Copies of HMV Group plc's accounts can be obtained from Shelley House, 2-4 York Road, Maidenhead, Berks, SL6 1SR England