

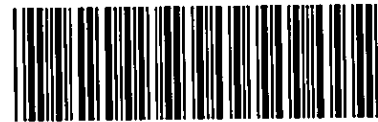
Company number: 00411080

# HMV Retail Limited

## REPORT AND ACCOUNTS

30 April 2008

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# **HMV Retail Limited**

## **COMPANY INFORMATION**

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### **DIRECTORS**

**Tatsunosuke Ota**  
**Toshitake Goto**

### **SECRETARY**

**Abogado Nominees Limited**

### **REGISTERED OFFICE**

**100 New Bridge Street**  
**London EC4V 6JA**

### **COMPANY NUMBER**

**00411080**

### **AUDITOR**

**Baker Tilly UK Audit LLP**  
**Chartered Accountants**  
**2 Bloomsbury Street**  
**London WC1B 3ST**



# HMV Retail Limited

## DIRECTORS' REPORT

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The Directors submit their report and the audited financial statements for the year ended 30 April 2008.

### PRINCIPAL ACTIVITIES

The Company is a retailer of music, DVD and related products in Japan.

### BUSINESS REVIEW

In August 2007, DSM Investments Catorce Co Ltd, a newly-formed entity, created by Daiwa Securities SMBC Principal Investments Co Ltd, acquired the entire share capital of HMV Retail Limited, together with that of HMV Japan KK, a company which purchases inventories and employs staff on behalf of HMV Retail Limited.

DSM Investments Catorce Co Ltd was subsequently renamed HMV Japan Holdings Ltd.

At the end of the period under review, the Company operated 64 stores in Japan trading from a total 404,302 square feet. In addition, the Company has an online retail business which contributed 30% of the Company's total sales for the year. Four stores were opened in the financial year and two stores were closed.

During the period the Japanese entertainment markets were weak, with the music market declining by 3.6% and the DVD market down by over 4.8%. However, the Company outperformed in both markets, gaining a 0.2% share in music and 1.5% in DVD. The Company will continue its existing business for the foreseeable future.

### RESULTS AND DIVIDENDS

The loss after deducting taxation amounted to £9.5m (2007: £0.3m).

The directors do not recommend payment of a dividend (2007: £Nil).

### PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties identified by the directors relate to the economic conditions in Japan, 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.

### 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 30 April 2008 is calculated as 57 days (2007: 81 days).

# HMV Retail Limited

## DIRECTORS' REPORT

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### DIRECTORS

The following directors have held office since 1 May 2007:

NI Bright	(resigned 25 August 2007)
MG Lymath	(resigned 25 August 2007)
SR Fox	(resigned 25 August 2007)
Tetsuzo Hasegawa	(appointed 25 August 2007; resigned 18 June 2008)
Takeshi Okado	(appointed 25 August 2007; resigned 31 December 2008)
Toshitake Goto	(appointed 25 August 2007)
Tatsunosuke Ota	(appointed 1 January 2009)

### FINANCIAL INSTRUMENTS

An indication of the financial risk management objectives and the exposure to risks on price, credit, liquidity and cash flows are set out in note 22 to the financial statements.

### CHARITABLE DONATIONS AND POLITICAL CONTRIBUTIONS

The Company did not make any charitable donations in the period under review (2007: £Nil). It is Company policy not to make contributions to political parties and therefore no political contributions were made during the period (2007: £Nil).

### STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

### AUDITOR

Ernst & Young LLP resigned as auditor and Baker Tilly UK Audit LLP were appointed in its place. Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

On behalf of the Board

*T. Goto*

Toshitake Goto

Director

25 May 2009

## **HMV Retail Limited**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

UK 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 of the company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU).

The financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing the financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRS as adopted by the EU;
- d. 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 which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of 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 AUDITOR'S REPORT TO THE MEMBERS OF HMV RETAIL LIMITED**

We have audited the financial statements on pages 7 to 23.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards 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 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 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. However, with respect to inventories have a carrying value of £28,041,000, the evidence available to us was limited because we did not observe the counting of the physical stock as at 30 April 2008, since that date was prior to our appointment as auditor of the company. Owing to the nature of the company's records, we were unable to obtain sufficient appropriate audit evidence regarding the carrying value of inventories by using other procedures.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HMV RETAIL LIMITED

### Qualified opinion arising from limitation in audit scope

Except for the financial effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical stock quantities, in our opinion

- the financial statements give a true and fair view of the state of the company's affairs at 30 April 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the Companies Act 1985.

In respect solely of the limitation on our work relating to inventories:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper accounting records had been maintained.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

### Emphasis of matter – going concern

In forming our opinion on the financial statements, we have considered the adequacy of the disclosure made in the accounting policies on page 10 of the financial statements concerning the company's ability to continue as a going concern. The company incurred a net loss of £9,499,000 during the year ended 30 April 2008 and, at that date, the company had net current liabilities of £32,504,000. These conditions, along with the other matters explained in the accounting policies on page 10 of the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

*Baker Tilly UK Audit LLP*

BAKER TILLY UK AUDIT LLP  
Registered Auditor  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

28 May 2009

**HMV Retail Limited**  
**INCOME STATEMENT**  
for the year ended 30 April 2008

	Notes	2008 £'000	2007 £'000
REVENUE	2	211,867	209,686
Cost of sales		(196,299)	(193,882)
GROSS PROFIT		15,568	15,804
Administrative expenses		(15,429)	(17,291)
OPERATING PROFIT/(LOSS)	3	139	(1,487)
Exceptional expense	4	(2,401)	-
Finance income	7	1	60
Finance costs	8	(645)	(455)
LOSS BEFORE TAXATION		(2,906)	(1,882)
Taxation	9	(6,593)	1,575
LOSS FOR THE YEAR	19	(9,499)	(307)

**STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
for the year ended 30 April 2008

	Notes	2008 £'000	2007 £'000
Foreign exchange translation differences	19	(1,236)	(518)
Net expense recognised directly in equity		(1,236)	(518)
Loss for the year	19	(9,499)	(307)
Total recognised income and expense for the year		(10,735)	(825)

**HMV Retail Limited**  
**BALANCE SHEET**  
as at 30 April 2008

	Notes	2008 £'000	2007 £'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	13,621	14,056
Deferred tax asset	9	-	6,214
Trade and other receivables	12	7,583	6,311
		<u>21,204</u>	<u>26,581</u>
<b>CURRENT ASSETS</b>			
Inventories	11	28,041	19,302
Trade and other receivables	12	9,006	8,052
Current tax asset		30	-
Cash and cash equivalents	13	6,250	7,085
		<u>43,327</u>	<u>34,439</u>
<b>TOTAL ASSETS</b>		<u>64,531</u>	<u>61,020</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	(36,657)	(38,531)
Current tax liabilities		-	(34)
Loans and borrowings	15	(35,066)	(21,913)
Provisions	16	(4,108)	(1,057)
<b>TOTAL LIABILITIES</b>		<u>(75,831)</u>	<u>(61,535)</u>
<b>NET LIABILITIES</b>		<u>(11,300)</u>	<u>(515)</u>
<b>EQUITY</b>			
Share capital	17	404	404
Foreign currency translation reserve	19	(1,754)	(518)
Retained earnings	19	(9,950)	(401)
<b>TOTAL EQUITY</b>	19	<u>(11,300)</u>	<u>(515)</u>

The financial statement were approved by the board of directors and authorised for issue on 25 May 2009 and are signed on its behalf by:

*T. Goto*

Toshitake Goto  
Director

**HMV Retail Limited**  
**CASH FLOW STATEMENT**  
for the year ended 30 April 2008

	Notes	2008 £'000	2007 £'000
<b>OPERATING ACTIVITIES</b>			
Loss before taxation		(2,906)	(1,882)
Adjustments:			
Depreciation		4,909	5,139
Operating asset write down		132	296
Loss on disposal of property, plant and equipment		236	261
Equity settled share-based payment credit		(50)	(94)
Finance costs (net)		644	395
Movements in working capital:			
Movement in inventory		(4,753)	(389)
Movement in trade and other receivables		(211)	7,554
Movement in trade and other payables		(7,609)	(4,995)
Movement in provisions		2,565	(536)
Cash (used by)/generated from operations		(7,043)	5,749
Income tax (paid)/received		(36)	99
<b>NET CASH FLOW (USED IN)/FROM OPERATING ACTIVITIES</b>		<b>(7,079)</b>	<b>5,848</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(2,761)	(5,415)
Cash transferred in from former group company		-	7,850
Interest received		1	60
<b>NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES</b>		<b>(2,760)</b>	<b>2,495</b>
<b>FINANCING ACTIVITIES</b>			
Movement in short term facilities		8,291	(3,861)
Movement in loans from former parent company		-	4,135
Interest paid		(374)	(455)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>		<b>7,917</b>	<b>(181)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,922)</b>	<b>8,162</b>
Opening cash and cash equivalents		7,085	-
Effect of exchange rate changes		1,087	(1,077)
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	13	<b>6,250</b>	<b>7,085</b>

# HMV Retail Limited

## ACCOUNTING POLICIES

### for the year ended 30 April 2008

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#### GENERAL INFORMATION

HMV Retail Limited is incorporated in the United Kingdom under the Companies Act 1985. The company is a retailer of music, DVD and related products in Japan. The company operates through a Japanese branch whose functional currency is the Japanese Yen. The presentational currency of the company's statutory accounts is Sterling. The company's registered office is 100 New Bridge Street, London EC4V 6JA.

#### BASIS OF PREPARATION

The financial statements are prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS") under the historical cost basis and in accordance with applicable accounting standards.

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

#### GOING CONCERN

The company meets its day to day working capital requirements through its bank overdraft facility. This overdraft facility is reviewed on a monthly basis and is currently due for renewal on 29 May 2009. The directors are confident that the facility will continue to be made available to the company for the foreseeable future.

The directors have prepared cash flow forecasts covering the period to 30 June 2010 and based on these forecasts and the expected renewal of the bank overdraft facility, the directors believe that the company will be able to meet its liabilities as they fall due throughout this period. Consequently the directors have, after careful consideration, concluded that it is appropriate to adopt the going concern basis for the preparation of these financial statements.

#### 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 company's presentational currency, using average exchange rates and period end rates are used to translate the assets and liabilities. 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.

**HMV Retail Limited**  
**ACCOUNTING POLICIES**  
**for the year ended 30 April 2008**

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**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	Remaining period of the lease
Plant and equipment	10 to 33 $\frac{1}{3}$ %

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.

# HMV Retail Limited

## ACCOUNTING POLICIES

### for the year ended 30 April 2008

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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 are not discounted.

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 cash equivalents in the balance sheet 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.

#### LOANS AND BORROWINGS

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.

# **HMV Retail Limited** **ACCOUNTING POLICIES** for the year ended 30 April 2008

## **FUTURE CHANGES TO ACCOUNTING POLICIES**

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations effective from periods commencing on or after the date set out below to be applied to the financial statements in future periods. They have not been adopted early by the Group and the directors do not expect these standards and interpretations to have a material impact on the financial statements.

International Financial Reporting Standards (IFRS/IAS)		Effective Date
IFRS 2	Share-based payment (Amendment)	1 January 2009
IFRS 8	Operating segments	1 January 2009
IAS 1	Presentation of financial statements (Amendment)	1 January 2009
IAS 23	Borrowing costs (Amendment)	1 January 2009
IAS 32	Financial instruments: Presentation (Amended)	1 January 2009
IFRS 1/IAS 27	Cost of an investment in a subsidiary, jointly-controlled entity or associate	1 January 2009
IFRS 3*	Business combinations (Amendment)	1 July 2009
IAS 27*	Consolidated and separate financial statements	1 July 2009
IAS 39*	Financial instruments: 'Recognition and measurement – Amendment for eligible hedged items'	1 July 2009
IFRS 7*	Financial instruments: Disclosures (Amendment)	1 January 2009
International Financial Reporting Interpretations (IFRIC)		Effective Date
IFRIC 12	Service concession arrangements	1 January 2008
IFRIC 13	Customer loyalty programmes	1 July 2008
IFRIC 14	IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008
IFRIC 16*	Hedges of a net investment in a foreign operation	1 October 2008
IFRIC 15*	Agreements for the construction of real estate	1 January 2009
IFRIC 17*	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18*	Transfers of assets from customers	1 July 2009
IFRIC 9, IAS 39*	Embedded derivatives (Amendment)	30 June 2009

\* Still to be endorsed by the EU as at the date of approval of these financial statements.

## **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or action, actual results may ultimately differ from those estimates. The key sources of estimation uncertainty derives from management assumptions in relation to provisions and impairment of current and non-current assets.

## **FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are recognised in the balance sheet when the company becomes a party to a contractual provision of the instrument. Trade and other receivables and trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.



**HMV Retail Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 April 2008

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**1 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.

<b>2</b>	<b>REVENUE</b>	<b>2008</b>	<b>2007</b>
		<b>£'000</b>	<b>£'000</b>
	Revenue is analysed as follows:		
	Sale of goods	211,867	209,686
	Sublease rental income	1,042	965
		<u>212,909</u>	<u>210,651</u>
	Finance income	1	60
	<b>Total revenue</b>	<u><b>212,910</b></u>	<u><b>210,711</b></u>
<b>3</b>	<b>OPERATING PROFIT/(LOSS)</b>	<b>2008</b>	<b>2007</b>
		<b>£'000</b>	<b>£'000</b>
	Operating profit/(loss) is stated after charging/(crediting):		
	Depreciation of property, plant and equipment	5,472	5,139
	Cost of inventories recognised as expense	154,375	150,166
	Write down of inventories	249	603
	Operating lease rentals:		
	Minimum rentals	11,899	11,797
	Percentage rentals	3,290	3,699
	Sublease rentals	(1,042)	(965)
		<u></u>	<u></u>

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.

Amounts payable to Baker Tilly UK Audit LLP and its related entities (2007: Ernst & Young LLP) for the statutory audit for the year are £51,000 (2007: £56,000). No non-audit fees were paid to the statutory auditors during the accounting year (2007: £Nil).

<b>4</b>	<b>EXCEPTIONAL COSTS</b>	<b>2008</b>	<b>2007</b>
		<b>£'000</b>	<b>£'000</b>
	Additional provision for members' card points (see note 16)	1,996	-
	Provision against amounts due from former group companies	405	-
		<u>2,401</u>	<u>-</u>

**HMV Retail Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 April 2008

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**5 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 borne by a fellow Group company.

<b>6 EMPLOYEE COSTS</b>	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	19,690	20,742
Social security costs	1,871	2,068
Other pension costs (see note 20)	349	325
	<u>21,910</u>	<u>23,135</u>

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 £50,000 (2007: £94,000). 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 average number of people seconded to the Company during the year was 1,637 (2007: 1,565).

<b>7 FINANCE INCOME</b>	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
From parent and fellow subsidiary undertakings	-	15
Bank interest receivable	1	45
	<u>1</u>	<u>60</u>

<b>8 FINANCE COSTS</b>	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans and overdrafts	(610)	(413)
To parent and fellow subsidiary undertakings	(35)	(42)
	<u>(645)</u>	<u>(455)</u>

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9	TAXATION	2008 £'000	2007 £'000
	Taxation recognised in the income statement:		
	UK, current year:		
	Corporation tax	-	(405)
		<u>-</u>	<u>(405)</u>
	Overseas tax, current year:		
	Corporation tax	38	38
	Under provision in prior periods	-	1
		<u>38</u>	<u>(366)</u>
	Total current tax	38	(366)
	Deferred tax, overseas:		
	Current year	-	(728)
	Overprovision in prior periods	-	(481)
	Exceptional deferred tax expense	6,555	-
		<u>6,555</u>	<u>(1,209)</u>
	Total deferred tax	6,555	(1,209)
	Total taxation charge/(credit) in the income statement	<u>6,593</u>	<u>(1,575)</u>

The deferred tax asset as at 30 April 2007 comprises £2,714,000 of accelerated depreciation for tax purposes, £1,989,000 of tax losses carried forward and £1,511,000 of other temporary differences. This asset arose in respect of the Japanese branch. This asset has been impaired in full in the current year as it is not a recoverable asset under UK corporation tax and IFRS.

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

	2008 £'000	2007 £'000
Loss before taxation	(2,906)	(1,882)
Corporation tax at rate of 30% (2007: 30%)	<u>(872)</u>	<u>(565)</u>
Effects of:		
Permanent disallowables	136	77
Other differences	774	(607)
Adjustment in respect of prior years	-	(480)
Exceptional deferred tax expense	6,555	-
	<u>6,593</u>	<u>(1,575)</u>
Total tax charge/(credit)	<u>6,593</u>	<u>(1,575)</u>

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<b>10</b>	<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>Property, plant and equipment £'000</b>
	<b>COST</b>	
	1 May 2006	-
	Transfer from group company	48,281
	Currency retranslation	(6,757)
	Additions	5,415
	Disposals	(1,393)
	<b>At 30 April 2007</b>	<b>45,546</b>
	Currency retranslation	8,099
	Additions	3,083
	Disposals	(3,582)
	<b>At 30 April 2008</b>	<b>53,146</b>
	<b>DEPRECIATION</b>	
	1 May 2006	-
	Transfer from group company	31,735
	Currency retranslation	(4,547)
	Charge for year	5,139
	Disposals	(837)
	<b>At 30 April 2007</b>	<b>31,490</b>
	Currency retranslation	5,600
	Charge for year	5,472
	Impairment loss	134
	Disposals	(3,171)
	<b>At 30 April 2008</b>	<b>39,525</b>
	<b>NET BOOK VALUE</b>	
	<b>At 30 April 2008</b>	<b>13,621</b>
	<b>At 30 April 2007</b>	<b>14,056</b>
	<b>At 30 April 2006</b>	<b>-</b>

**11 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.

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12	TRADE AND OTHER RECEIVABLES	2008 £'000	2007 £'000
	Non-current:		
	Other receivables	7,583	6,311
		<u>          </u>	<u>          </u>
	Current:		
	Trade receivables	7,863	6,534
	Amounts owed by parent and fellow subsidiary undertakings	-	605
	Prepayments and accrued income	1,143	913
		<u>9,006</u>	<u>8,052</u>

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

13	CASH AND CASH EQUIVALENTS	2008 £'000	2007 £'000
	Cash at bank and in hand	6,250	7,085
		<u>          </u>	<u>          </u>

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

14	TRADE AND OTHER PAYABLES	2008 £'000	2007 £'000
	Current:		
	Trade payables	3,390	4,622
	Amounts owed to parent and fellow subsidiary undertakings	29,556	31,422
	Other payables	384	405
	Accruals and deferred income	3,327	2,082
		<u>36,657</u>	<u>38,531</u>

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

15	LOANS AND BORROWINGS	2008 £'000	2007 £'000
	Bank overdraft	9,357	-
	Loan from parent company	25,709	-
	Loan from former group companies	-	21,913
		<u>35,066</u>	<u>21,913</u>

The bank overdraft is secured on cash deposits held by HMV Japan IP KK, a fellow subsidiary of HMV Japan Holdings Ltd.

The loan from the parent company has been subordinated in favour of the bank overdraft.

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16	PROVISIONS	Members' card points £'000	Store closures and restructuring £'000	Total £'000
	At 1 May 2006	824	913	1,737
	Charged during the year (net)	60	(536)	(476)
	Currency retranslation	(115)	(89)	(204)
	At 30 April 2007	769	288	1,057
	Exceptional expense (see note 4)	1,996	-	1,996
	Charged during the year (net)	40	527	567
	Currency retranslation	376	112	488
	At 30 April 2008	3,181	927	4,108
17	SHARE CAPITAL		2008 £'000	2007 £'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

There were no movements in the share capital of the company in either 2008 or 2007.

**18 SHARE BASED PAYMENTS**

Certain of the company's employees were granted share-based payments under share incentive schemes of HMV Group plc, the ultimate parent undertaking until August 2007. Details of these share based payments are summarised below.

***EQUITY-SETTLED SHARE OPTION PLAN***

The movements in the number of share options during the year are detailed in the table below. The options outstanding at 30 April 2008 had a weighted average exercise price of 150p (2007: 204p) and a weighted average remaining contractual life of 0.3 (2007: 6.6) years.

	2008 Options (Number)	2008 Weighted average exercise price (Pence)	2007 Options (Number)	2007 Weighted average exercise price (Pence)
Outstanding at beginning of year	2,620,241	204	3,777,734	186
Lapsed during the year	(1,773,303)	230	(1,157,493)	145
Outstanding at end of the year	846,938	150	2,620,241	204
Exercisable at end of the year	846,938	150	1,081,050	154

**HMV Retail Limited**  
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**18 SHARE BASED PAYMENTS (continued)**

	2008	2008	2007	2007
	Options	Weighted	Options	Weighted
	outstanding	average	outstanding	average
	(Number)	remaining	(Number)	remaining
		contractual life		contractual life
		(Years)		(Years)
Exercise Price 18.73p	96,078	0.3	96,078	4.4
Exercise price 167p	750,860	0.3	984,972	5.1
Exercise price 237p	-	-	734,395	7.2
Exercise price 242p	-	-	804,796	8.2
	<u>846,938</u>	<u>0.3</u>	<u>2,620,241</u>	<u>6.6</u>

Following the sale of the company by HMV Group plc on 25 August 2007, certain of the share options lapsed and the exercise expiry date on the remaining options was reduced to 25 August 2008. Subsequent to the year end, 48,039 of the outstanding options were exercised and the balance of 798,899 have now lapsed.

**EQUITY-SETTLED DEFERRED ANNUAL BONUS**

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

	2008	2008	2007	2007
	Share awards	Weighted	Share awards	Weighted
	(Number)	average grant	(Number)	average grant
		price		price
		(Pence)		(Pence)
Outstanding at beginning of year	220,911	165	-	-
Granted during the year	-	-	220,911	165
Vested during the year	(24,544)	165	-	-
Lapsed during the year	(196,367)	165	-	-
Outstanding at end of the year	<u>-</u>	<u>-</u>	<u>220,911</u>	<u>165</u>

**EQUITY-SETTLED PERFORMANCE SHARE PLAN (PSP)**

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

	2008	2008	2007	2007
	Share awards	Weighted	Share awards	Weighted
	(Number)	Average	(Number)	Average
		grant price		grant price
		(Pence)		(Pence)
Outstanding at beginning of year	568,551	162	-	-
Granted during the year	-	-	575,540	162
Forfeited during the year	(379,736)	162	-	-
Lapsed during the year	(132,810)	162	(6,989)	162
Exercised during the year	(56,005)	162	-	-
Outstanding at end of the year	<u>-</u>	<u>-</u>	<u>568,551</u>	<u>162</u>

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**19 RECONCILIATION OF MOVEMENTS IN EQUITY**

	Share capital £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total £'000
At 1 May 2006	404	-	-	404
Total recognised income and expense for the year	-	(518)	(307)	(825)
Credit for share-based payments	-	-	(94)	(94)
At 30 April 2007	404	(518)	(401)	(515)
Total recognised income and expense for the year	-	(1,236)	(9,499)	(10,735)
Credit for share-based payments	-	-	(50)	(50)
At 30 April 2008	404	(1,754)	(9,950)	(11,300)

**20 PENSION ARRANGEMENTS**

HMV Japan KK, a fellow subsidiary, operates an Accrued Retirement Benefit scheme which is open to its staff on attainment of a specified employment grade. HMV Japan KK 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 30 April 2008, the Company was charged £190,000 (2007: £325,000) by HMV Japan KK in relation to these arrangements.

**21 OBLIGATIONS UNDER OPERATING LEASES**

The Company operates entirely from properties in Japan under commercial operating leases. The minimum lease payments are under these leases as follows:

	2008 £'000	2007 £'000
Within one year	11,085	11,256

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 30 April 2008 is £907,000 (2007: £1,016,000).



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**22 FINANCIAL INSTRUMENTS**

The company manages its capital to ensure that it will be able to continue as a going concern while aiming to maximise return to stakeholders through the optimisation of the debt and equity balance. The company's capital structure comprises issued share capital and retained earnings, which are detailed in note 19. Any surplus cash arising is used to reduce debt or reinvested in the business. The company is not subject to any externally imposed capital requirements.

It is, and has been throughout the period under review, the company's policy that no trading in financial instruments shall be undertaken.

The directors monitor and manage the financial risks relating to the company's operations. These risks included currency risk, interest rate risk, price risk, credit risk and liquidity risk. The main risks are identified as liquidity risk, currency risk and interest rate risk.

**Liquidity Risk**

As explained in the accounting policies on page 10, the company manages its day to day cash flow requirements using a short-term overdraft facility together with cash and cash equivalents. The directors monitor the liquidity risk carefully using cash flow forecasts.

**Interest Rate Risk**

As explained above the group is financed through short term borrowings. These are subject to interest rate fluctuations. Details of these borrowings are disclosed in note 15.

**Currency Risk**

All of the company's operations are based in Japan, so material fluctuations in foreign currencies will result in material translation gains or losses being recognised in equity. The company also enters into other foreign currency transactions during its ongoing operations which are subject to gains and losses that are taken to the income statement. The majority of the company's assets and liabilities are denominated in Yen.

**23 RELATED PARTY TRANSACTIONS**

During the year, the company was charged the following amounts by fellow group companies. Details of balances outstanding at the balance sheet date are disclosed in notes 12 and 14.

	2008 £'000	2007 £'000
Inventories purchased	158,591	153,214
Staff costs	21,155	21,866
Royalty cost	2,119	4,025
Other charges	303	366
	<u>182,168</u>	<u>179,651</u>

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**23 RELATED PARTY TRANSACTIONS (continued)**

**REMUNERATION OF KEY MANAGEMENT PERSONNEL**

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

	2008 £'000	2007 £'000
Short-term employee benefits	527	1,130
Post-employment benefits	-	35
Deferred shares	-	99
	<u>527</u>	<u>1,264</u>

**24 PARENT UNDERTAKING**

The ultimate parent undertaking and controlling party of the company during the period to 29 August 2007 was HMV Group plc, a company registered in England and Wales. Copies of HMV Group plc's accounts can be obtained from Shelley House, 2-4 York Road, Maidenhead, SL6 1SR, England.

The immediate parent undertaking of the company since 29 August 2007 has been HMV Japan Holdings Ltd (formerly DSM Investments Catorce Co. Ltd). The ultimate parent undertaking and controlling party of the company since 29 August 2007 has been Daiwa Securities SMBC Principal Investments Co Ltd.