REGISTEED NUMBER 3840597 (England and Wales)

# ABBREVIATED ACCOUNTS

# FOR THE YEAR ENDED 31 MARCH 2010

# FOR

# DIGITAL STORES LIMITED

DIGITAL STORES LIMITED

CONTENTS OF ABBREVIATED ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2010

## DIGITAL STORES LIMITED

## COMPANY INFORMATION
## FOR THE YEAR ENDED 31 MARCH 2010

| | | | |
|---|---|---|---|
| **DIRECTORS:** | R D Coultart | Resigned | 10 August 2010 |
| | S Moxon | Resigned | 10 August 2010 |
| | J Summer | Resigned | 10 August 2010 |
| | A Catto | Resigned | 10 August 2010 |
| | D Kassler | Appointed | 10 August 2010 |
| | S Naughton | Appointed | 10 August 2010 |
| **SECRETARY:** | R D Coultart | Resigned | 10 August 2010 |
| | Mawlaw Secretaries Limited | Appointed | 10 August 2010 |
| **REGISTERED NUMBER:** | 3840597 (England and Wales) | | |
| **REGISTERED OFFICE:** | 27 Wrights Lane<br>London W8 5SW | | |
| **ACCOUNTANTS** | KPMG LLP | | |

**DIGITAL STORES LIMITED**
**ABBREVIATED BALANCE SHEET**
**31 MARCH 2010**

| | Notes | 2010 £ | 2010 £ | 2009 Restated £ | 2009 Restated £ |
|---|---|---|---|---|---|
| **FIXED ASSETS** | | | | | |
| Intangible assets | 3 | | 67,635 | | 65,025 |
| Tangible assets | 4 | | 501,467 | | 339,082 |
| | | | 569,102 | | 404,107 |
| **CURRENT ASSETS** | | | | | |
| Stocks | | 163,461 | | 186,315 | |
| Debtors | | 117,234 | | 174,918 | |
| Cash at bank and in hand | | 773 | | 602 | |
| | | 281,468 | | 361,835 | |
| **CREDITORS** | | | | | |
| Amounts falling due within one year | | 1,071,055 | | 717,267 | |
| **NET CURRENT LIABILITIES** | | | (789,587) | | (355,432) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | | (220,485) | | 48,675 |
| **CREDITORS** | | | | | |
| Amounts falling due after more than one year | | | 50,002 | | 50,002 |
| **NET LIABILITIES** | | | (270,487) | | (1,327) |
| **CAPITAL AND RESERVES** | | | | | |
| Called up share capital | 5 | | 538 | | 547 |
| Share premium | | | 649,773 | | 712,263 |
| Profit and loss account | | | (920,798) | | (714,137) |
| | | | (270,487) | | (1,327) |

The company is entitled to exemption from audit under Section 480 of the Companies Act 2006 for the year ended 31 March 2010

The members have not required the company to obtain an audit of its financial statements for the year ended 31 March 2010 in accordance with Section 475 of the Companies Act 2006

The directors acknowledge their responsibilities for
(a) ensuring that the company keeps accounting records which comply with Section 386 of the Companies Act 2006 and
(b) preparing financial statements which give a true and fair view of the state of affairs of the company as at the end of each financial year and of its profit or loss for each financial year in accordance with the requirements of Section 394 and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements, so far as applicable to the company


continued

**DIGITAL STORES LIMITED**
**ABBREVIATED BALANCE SHEET - continued**
**31 MARCH 2010**

The financial statements were approved by the Board of Directors on 7 October '10 and were signed on its behalf by

Shane Naughton – Director

**DIGITAL STORES LIMITED**
**NOTES TO ABBREVIATED ACCOUNTS**
**FOR THE YEAR ENDED 31 MARCH 2010**

## 1 Non-guarantor company with Letter of Support

**Basis of preparation**

The financial statements are prepared on a going concern basis, notwithstanding net liabilities of £789,587, which the directors believe to be appropriate for the following reasons Digital Stores Limited is dependent for its working capital on funds provided to it by Maltby Investments Limited ('Maltby Investments'), one of the Company's parent undertakings Both the Company and Maltby Investments operate as part of the Maltby Capital Limited group ("the Group") Maltby Investment's financial statements for the year ended 31 March 2010 indicated that it had net liabilities of £1,315 million at that date Maltby Investments has indicated that for the foreseeable future it intends to continue to provide financial and other support to the company, if need be The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment 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, at the date of approval of these financial statements, they have no reason to believe that it will not do so In this context, further information on Maltby Investments is set out below

The Group's lender has provided the Group with a number of banking facilities which are repayable from 2014 and 2015 The facilities include certain financial covenant tests which are performed quarterly in respect of rolling one year periods ending on 31 March, 30 June, 30 September and 31 December and certain other covenants and events of default The breach of a covenant or occurrence of an event of default renders all of the facilities repayable on demand at the option of the lender

Maltby Investments Limited made the following disclosures within its financial statements for the year ended 31 March 2010, approved 11 August 2010, regarding going concern

The operating performance of EMI has improved markedly over the period since its acquisition by its current shareholders The Group's Profit before impairment and restructuring costs has increased from £143m for the financial year ended March 2009 to £192m for the financial year ended March 2010 The Group's Cash generated from operations has increased from £192m for the financial year ended March 2009 to £273m for the financial year ended March 2010 This represents a 34% increase in Profit before impairment and restructuring costs and a 42% increase in Cash generated from operations over the last financial year

This enhanced operational performance, together with equity injections provided to date by the shareholders of Maltby Capital Limited (the "ultimate shareholders"), means the Group is able to meet its ongoing working capital needs and its current debt service obligations under the facilities agreements to which the Company and a number of its subsidiaries are party However, the banking facilities contain a financial covenant for each division based on Debt/EBITDA which has been tightening over the same period to a greater extent than can be covered by the improvement in the Group's performance (especially in the EMI Music division) The covenant steps down significantly each March year end making it progressively harder to achieve the required ratio

The covenants are tested quarterly in respect of rolling one year periods ending on 31 March, 30 June, 30 September and 31 December The breach of a financial covenant (or any other covenant or the occurrence of an event of default) renders all of the facilities repayable on demand at the option of the lender As the financial covenant ratios have tightened over this period, shortfalls to the financial covenant have occurred and (due to the continued tightening of the financial covenants in future periods) are anticipated to occur going forward, notwithstanding the operational improvements The requirement for further equity cures is discussed in more detail below

The principal uncertainty for the Group is whether additional equity funding will be available in future periods to enable it to comply with the financial covenant under the banking facilities Due to the sound operating performance of the business, the directors believe that it would be in the interests of the Group's lender to maintain the Group's business as a going concern and to minimise any disruption to its ongoing operations if the covenant were breached

In order to meet financial covenant tests in respect of several quarterly periods ended since 30 September 2008 the Group applied funds originally provided by the ultimate shareholders under equity cure provisions within the banking facilities as follows

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| **Quarter ended** | **£m** | **£m** | **£m** |
| 31 March | | 39 25 | 87 5 |
| 30 June | | 37 0 | |
| 30 September | 16 0 | nil | |
| 31 December | 12 75 | nil | |

The equity cure in relation to the quarter ended 31 March 2010 was effected on 10 June 2010 out of new equity raised from the ultimate shareholders of £78 1m together with £9 4m already held by Maltby Capital Limited ("Maltby Capital") These equity cures were made to ensure that the EMI Music division remained compliant with the covenants relating to its financing facilities No cure was required for the EMI Music Publishing division

The financial statements are prepared on a going concern basis In preparing the financial statements on this basis the directors have taken account of the following matters

1 The Group meets its day to day working capital requirements and medium term funding requirements through its banking facilities which are repayable from 2014 and 2015

The directors have prepared base case trading and cash flow forecasts for a period in excess of one year from the date of approval of these financial statements which project that the total amount of each of the facilities is not exceeded However, there are a number of risks attached to these projections including the current general economic climate, inherent risks that exist in the music market of market growth or decline varying from the rates expected and the nature of the Group's business is such that there can be considerable unpredictable variation in the timing of earnings and cash inflows if there is a change in the forecast release date for key projects

3 The latest projections for the Group indicate that funds of up to £26 9m in aggregate will be required for cure purposes in respect of the 12 month test periods ending on 30 June 2010, 30 September 2010 and 31 December 2010 Maltby Capital has received a commitment from the ultimate shareholders to provide it with further injections up to this amount provided that (i) no "Default" under the Group's banking facilities is continuing at the time of injection and (ii) at least 3 business days' notice of the cure amount required is given by Maltby Capital to the ultimate shareholders In turn, the Maltby Capital will make funds of up to £26 9m in aggregate available to the Company in relation to the test periods remaining in 2010, provided that (i) no "Default" under the Group's banking facilities is continuing at the time of injection, (ii) the provision of such funds would result in the financial covenants being complied with, and (iii) at least 5 business days' notice of the cure amount required is given by the Company to Maltby Capital In agreeing the amount of funds to be committed, no headroom in excess of the expected level of further cure requirements for the three 12 month periods referred to above has been included and there are uncertainties associated with the forecasts and projections for the business which could result in earnings and cash flows being below their forecast levels without mitigating factors occurring

The Group has already factored into its projections assumptions around tight cash management over this period so as to minimise the quantum of cure payments it is required to make, so efforts to mitigate the impact of any trading shortfall by further cash conservation measures is likely to be challenging There is therefore no certainty that the committed funds will be sufficient to effect any cures which are required in relation to periods ended up to 31 December 2010

3 The directors continue to engage with Maltby Capital, the ultimate shareholders and debt provider to ensure continued operations The current forecasts for the Group indicate that it is likely there will be a further significant shortfall when the covenants under its banking facilities are tested as at 31 March 2011 Current indications are

that in the absence of other initiatives additional funds in an amount that could be substantially in excess of the total amount of equity cure payments provided by the ultimate shareholders to cure covenant breaches for test periods ended during the financial year to 31 March 2010 would be required from shareholders to fund the cure payment for the test period ending 31 March 2011 The directors have been exploring various strategic options which may be available to the Group but, even though the strategic options are expected to reduce the quantum of the further equity injection, they consider that it is unlikely that the financial covenants tested as at 31 March 2011 will be met without a further substantial equity injection In addition further smaller cures may also be required in relation to the other test periods ending in 2011

Accordingly the directors will need to engage, together with Maltby Capital, in discussions with the ultimate shareholders for additional funding in respect of the above as they did for the additional equity raised to cure the covenant for the test period ended 31 March 2010 However, there is no certainty that an agreement for further equity injections will be reached, or will be reached within the time available under the Group's banking facilities

Consequently, should the conditions attached to the additional funding which the ultimate shareholders and Maltby Capital have undertaken to provide in relation to the June, September and December 2010 test periods not be met or should the consent of the ultimate shareholders to the provision of further equity cure funding required in respect of the test period ending 31 March 2011 not be forthcoming, or not be forthcoming within the applicable period, the outcome for the Group of a breach of financial covenants in respect of these periods would be dependent upon discussions with the Group's lender This would also be the case if any equity cure funding provided by the ultimate shareholders was insufficient to prevent breaches of financial covenants in relation to subsequent test periods, and consent of the ultimate shareholders to any subsequent request for the provision of further equity cure funding was not forthcoming, or not forthcoming within the applicable period

In these circumstances, the directors consider that it would be in the interests of the Group's lender to maintain the Group's business as a going concern and to minimise any disruption to its ongoing operations In coming to this view, the directors have taken account of the improvement in the Group's operating cashflow, which means that based on current forecasts the Group has sufficient cash flow to meet its current debt service obligations under its banking facilities absent any breach of covenants which would render all facilities repayable on demand at the option of the lender

The directors also recognise that existing forecasts indicate further significant shortfalls in respect of the covenant test periods to the end of March in each year until the facilities expire in 2014 and 2015 The directors are aware of the ongoing litigation in respect of certain matters relating to the acquisition of the Company's subsidiary, EMI Group Limited (formerly EMI Group plc) between, amongst others, shareholders of Maltby Capital and the Group's lender Neither Maltby Capital, the Company nor any other members of the Group is party to these proceedings EMI Group Limited has been in discussions with the Trustee of the EMI Group Pension Fund regarding the cash contributions under the scheme funding regime Agreement has not been able to be reached regarding a long-term funding policy for the Fund and absent such agreement the Pensions Regulator has referred the matter to the Determinations Panel for resolution

The Group's current lending arrangements require the deficit existing at the date of acquisition of EMI Group Limited to be met by additional equity investment Under proposals put forward to the Determinations Panel, the scheme funding deficit could fall somewhere in a range between £115 million and £217 million based on a valuation at 31 March 2008 Absent any prior agreement with the Trustees, the size of this deficit and the number of years over which the deficit is removed will be resolved by the Determinations Panel

The directors have concluded that the combination of these circumstances represents a material uncertainty that may cast significant doubt on Maltby Investments Limited's ability to make funds available to the Company and hence the Company's ability to continue as a going concern The Company may therefore be unable to continue realising its assets and discharging its liabilities in the normal course of business The financial statements do not include any adjustments that would result if the Company were unable to continue as a going concern due to a withdrawal of the Group's banking facilities by the Group's lender

Nevertheless, after making enquiries and considering the uncertainty described above, the directors have concluded that they have a reasonable expectation that the Company has adequate resources to continue as a going concern for the foreseeable future For these reasons, they continue to adopt the going concern basis in preparing the financial statements

## 2. ACCOUNTING POLICIES

**Accounting convention**
The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007)

**Turnover**
Turnover represents net invoiced sales of goods, excluding value added tax

**Intangible fixed assets**
Intangible fixed assets are amortised to the profit and loss account by equal instalments over their estimated useful economic life up to a maximum of 20 years

**Tangible fixed assets**
Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life

Plant and machinery - 25% on cost
Fixtures and fittings - 25% on cost

**Stocks**
Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

**Deferred tax**
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date

**Hire purchase and leasing commitments**
Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease

## 3 INTANGIBLE FIXED ASSETS

| | Total |
|---|---|
| | £ |
| **COST** | |
| At 1 April 2009 and at 31 March 2010 | 68,113 |
| **AMORTISATION** | |
| At 1 April 2009 | 3,088 |
| Charge for year | 404 |
| Elimination on disposal - Website development | (3,014) |
| At 31 March 2010 | 478 |
| **NET BOOK VALUE** | |
| At 31 March 2010 | 67,635 |
| At 31 March 2009 | 65,025 |

## 4. TANGIBLE FIXED ASSETS

| | Total |
|---|---|
| | £ |
| **COST** | |
| At 1 April 2009 | 844,714 |
| Additions | 423,698 |
| Disposals | (99,499) |
| At 31 March 2010 | 1,168,913 |
| **DEPRECIATION** | |
| At 1 April 2009 | 505,631 |
| Charge for year | 228,287 |
| Eliminated on disposal | (66,472) |
| | 667,446 |
| **NET BOOK VALUE** | |
| At 31 March 2010 | 501,467 |
| At 31 March 2009 | 339,083 |

DIGITAL STORES LIMITED
NOTES TO ABBREVIATED ACCOUNTS - continued
FOR THE YEAR ENDED 31 MARCH 2010

## 5 CALLED UP SHARE CAPITAL

| Aurthorised | | | 2010 | 2009 |
|---|---|---|---|---|
| Number | Class | Nominal Value | **£** | £ |
| 2,500,000 | Ordinary | 04p | **1,000** | 1,000 |
| Nil | Preference Shares | £1 | **-** | - |
| | | | **1,000** | 1,000 |

| Allotted, issued and fully paid | | | | |
|---|---|---|---|---|
| Number | Class | Nominal Value | **2010** | 2009 |
| 1,373,000 | Ordinary | 04p | **538** | 547 |
| Nil | Preference Shares | £1 | **-** | - |
| | | | **538** | 547 |

## 6 Post Balance Sheet Events

On the 10th August 2010 the entire share capital of Digital Stores Limited was acquired by EMI Records Limited
The ultimate owner of the company is Maltby Capital Limited