EMI Records Limited

Directors' Report and Financial Statements

31 March 2009

Registered No. 68172

Registered No. 68172

Directors
D D'Urbano
D N Kassler

Secretaries
Mawlaw Secretaries Limited

Auditors
KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

Registered Office
27 Wrights Lane
London
W8 5SW

Registered No. 68172

Directors' report

The directors submit their report and financial statements for the year ended 31 March 2009.

Results and dividends

The profit for the year, after taxation, was £21,095,000 (2008 – Loss of £22,103,000).

The directors do not recommend payment of a dividend for the year (2008 – £nil).

Principal activities and review of business development

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

The Company operates as part of the Maltby Capital Limited group ("the Group")

Financial review

Turnover has decreased by £2,094,000 (2.0%) compared to the prior year. Operating profit has increased by £46,009,000 (150.0%) after charging exceptional items relating to reorganisation and fixed asset disposal of £14,910,000 (2008: £30,314,000). Net assets have increased by £21,905,000 (71.0%).

On 17 August 2007, Maltby Acquisitions Limited acquired 100% of the issued share capital of EMI Group Limited (formerly EMI Group plc), the Company's ultimate parent, for a consideration of £2,206 million (including acquisition fees of £28 million). Subsequent to this acquisition, the Company engaged experts and consultants, together with in-house expertise, to analyse in detail the commercial and geographic markets in which the Company operates, assess and redefine the strategic objectives of the business, and started to implement a wide ranging restructuring exercise to fundamentally reshape the business.

During the year ended 31 March 2009, the restructuring initiative continued with significant costs incurred being recognised in the profit and loss account of £14,910,000 (2008: £30,314,000).

Analysis of key performance indicators

The directors and management of the Company use a number of key performance indicators (KPIs) to assess the ongoing performance of the business. The principal profit KPI used by the directors is EBITDA, which is considered a proxy for cash flow. The directors define EBITDA as the profit from operations stated before depreciation, amortisation, exceptional items (including restructuring costs) and the share of associates' and joint ventures' results. EBITDA for the year ended 31 March 2009 was £37,058,000 (2008: £8,052,000).

Key risks and uncertainties

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

- The market for recorded music product has been declining and may continue to decline;
- The current uncertainty in global economic conditions would adversely affect the prospects and results of the business;
- The downward pressure on the pricing of music products leading to pressure on the margins;
- The dependence on identifying, signing and retaining artists with long-term potential, and the effect of results of successful artists;
- The continuing exposure of the music industry to illegal music downloads and file sharing

Directors' report (continued)

Directors and their interests

The directors who served during the year are shown below:

C Roling (resigned 22 September 2008)
A Chadd (appointed 22 September 2008 and resigned 12 August 2009)
S Alexander (resigned 17 December 2008)
R Punja (resigned 17 December 2008)
C Kennedy (appointed 17 December 2008, resigned 8 July 2009)

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

D N Kassler (appointed 8 July 2009)
D D'Urbano (appointed 15 August 2009)

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

Certain directors benefit from qualifying third party indemnity provisions at the date of this report.

Political and charitable contributions

During the year, the company made various charitable contributions totalling £95,000 (2008 – £126,000).

Employment of disabled persons

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

Employee involvement

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

Supplier payment policy

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

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

At 31 March 2009 the company had an average of 50 days' purchases outstanding in trade creditors (2008 – 50).

Disclosure of Information to Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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Directors' report (continued)

Auditor

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

On behalf of the Board

D D'Urbano
Director

29 Jan 2010

27 Wrights Lane
London
W8 5SW

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Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of EMI Records Limited

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

We have audited the company's financial statements for the year ended 31 March 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities on page 5.

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

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

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

Basis of audit opinion

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

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

Independent auditors' report

to the members of EMI Records Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern.

The Company has provided a guarantee to the Group's lender and so as such is affected by the terms of the Group's banking facilities. The continued availability of existing bank facilities requires the Group to comply with the covenants set out in those bank facilities.

The ability of the Company and the Group to continue as a going concern is dependent upon the continued availability of existing banking facilities, which require the Group to comply with the covenants set out in those facilities. The ability of the Group to comply with its covenants is dependent upon the outcome of the actions described in note 1, in particular the agreement of the Group's shareholders to the provision of equity cure funding on the basis described, as well as the Group's ability to generate earnings and cash flows substantially in line with its forecasts. However, as described in note 1, notwithstanding the current discussions no agreement has yet been reached with the Group's shareholders and there is no certainty that such an agreement will eventually be reached, or will be reached within the time available under the Group's banking facilities for additional equity to be injected.

Furthermore, a satisfactory funding agreement with the Trustees of the EMI Group Pension Fund still has yet to be reached. As described in note 1, should contributions to remove any deficit in the Fund be required prior to the expiry of the Group's existing banking facilities, it is expected that, absent agreement from the lender, funding for these contributions, which would be likely to be spread over a number of years, will need to be met by additional funds from the shareholders. There is no certainty that such funds will be available.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

KPMG LLP

29 Jan 2010

KPMG LLP
Chartered Accountants
Registered Auditors

Registered No. 68172

Profit and loss account

for the year ended 31 March 2009

	Note	*2009* *£000*	*2008* *£000*
Turnover	2	85,075	87,169
Cost of sales		(4,408)	(10,274)
Gross profit		80,667	76,895
Distribution costs		(2,464)	(1,820)
Administrative expenses:			
Before exceptional items		(52,882)	(80,378)
Reorganisation costs	7	(7,573)	–
Provision against artists' advances and artists' contracts	7	–	(29,856)
Fixed asset impairment	7	(7,337)	(458)
		(67,792)	(110,692)
Other operating income		4,875	4,894
		(62,917)	(107,618)
Net operating profit/(loss)	3	15,286	(30,723)
Interest receivable	8	27,020	28,853
Interest payable and similar charges	9	(21,211)	(20,233)
		5,809	8,620
Profit/(loss) on ordinary activities before taxation		21,095	(22,103)
Tax on profit/(loss) on ordinary activities	10	–	–
Profit/(loss) on ordinary activities after taxation	20	21,095	(22,103)

As stated in the Director's report, the results above for the year ended 31 March 2009 and 31 March 2008 are all derived from continuing activities.

The notes on pages 11 to 25 form part of these financial statements.

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

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Statement of total recognised gains and losses

for the year ended 31 March 2009

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £21,095,000 in the year ended 31 March 2009 (2008 – loss of £22,103,000).

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Balance sheet

at 31 March 2009

	Note	2009 £000	2008 £000
Fixed assets			
Intangible assets	11	–	–
Tangible assets	12	14,705	26,771
Investments	13	49,213	49,213
		63,918	75,984
Current assets			
Stocks	14	249	2,683
Debtors	15	543,314	449,339
Cash at bank and in hand		4,402	31,400
		547,965	483,422
Creditors: amounts falling due within one year	16	(349,112)	(323,642)
Net current assets		198,853	159,780
Total assets less current liabilities		262,771	235,764
Creditors: amounts falling due after more than one year	17	(201,931)	(201,660)
Provisions for liabilities	18	(10,071)	(4,430)
Net assets		50,769	29,674
Capital and reserves			
Called up share capital	19,20	112,605	112,605
Profit and loss account	20	(61,836)	(82,931)
Equity shareholders' funds	20	50,769	29,674

The notes on pages 11 to 25 form part of these financial statements.

Approved by the Board of Directors on 2010 and signed on behalf of the Board:

D D'Urbano
Director
29 Jan 2010

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Notes to the financial statements

at 31 March 2009

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention.

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

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

Going Concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons.

The following information is relevant when considering the financial position of the Group. Furthermore the Company has provided a guarantee to the Group's lender and so as such is affected by the terms of the Group's banking facilities.

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.

The directors of Maltby Capital Limited ('Maltby Capital', a parent undertaking of the Company and of Maltby Investments) (the 'Maltby 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 statements which project that the total amount of the facilities is not exceeded. However, the current general economic climate has impacted the Group and the Group is susceptible to the inherent risks that exist in the music market of market growth or decline varying from the rates expected. Amongst other factors, 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.

The current forecasts for the Group indicate that, absent any equity cure, it is likely there will be a significant shortfall when the financial covenants under its banking facilities are tested as at 31 March 2010. The Maltby directors have been exploring various strategic options which may be available for the Group, but they consider that it is unlikely that the financial covenants tested as at 31 March 2010 will be met without further equity cure and accordingly are engaged, together with Maltby Investments, in discussions with the Group's shareholders for additional funding for this purpose.

Maltby Capital and Maltby Investments have received confirmation from the Group's shareholders that they intend to recommend to their investors that the investors should provide certain additional funds to be available for equity cure purposes for the covenant test periods as at 31 March 2010 through to the end of March 2011, subject to the following conditions: (i) the provision to and approval by the shareholders of a revised strategic business plan for certain sectors of the Group's business towards which such additional equity funding would be applied, which demonstrates (in the absolute discretion of the shareholders) that the additional investment is economically justifiable to their investors on the basis of the revised strategic business plan and (ii) no "Default" under the banking facilities. Maltby Capital and Maltby Investments have also received confirmation that discussions will be further progressed once the finalised revised strategic business plan is available.

Notes to the financial statements

at 31 March 2009

1. Accounting policies (continued)

Going Concern (continued)

Maltby Capital and Maltby Investments have been progressing the above revised business plan, and their directors are of the view that they will be able to formulate and deliver, in accordance with a schedule which they believe should allow sufficient time for its consideration, approval and the funding of additional equity within the period applicable under the facilities, a business plan based upon the conditions which they are currently discussing with the Group's shareholders and which they consider would present a reasonable economic case for the additional investment represented by such equity injections. However, no agreement has yet been reached with the Group's shareholders and there is no certainty that such an agreement will eventually be reached, or will be reached within the time available under the Group's banking facilities for additional equity to be injected.

In order to meet financial covenant tests in respect of periods ending 30 September 2008, 31 December 2008, 31 March 2009, 30 June 2009 and 30 September 2009, the Group applied funds originally provided by the Group's shareholders of £16 million, £12.75 million, £39.25 million, £37 million and £nil, respectively, under equity cure provisions within the banking facilities. Following the 30 September 2009 financial covenant test, £23.3 million of funds remained or could be made available for further cures up to 31 December 2009; of this amount, £9.5 million remains available for application after 31 December 2009. Preliminary results indicate that equity cure is not expected to be required in respect of the covenant test period to 31 December 2009. Any funds determined to be required for equity cure in relation to the test period to 31 December 2009 would need to be applied for this purpose by 12 March 2010.

The aggregate amount of equity cure required in relation to test periods ending between 31 December 2009 and 31 December 2010 may be significantly greater than the cumulative cures provided to date. Current forecasts indicate that the most substantial cure within this period is likely to be required in relation to the covenant test period ending on 31 March 2010, which would require the injection of equity cure monies by 14 June 2010.

Beyond the £9.5 million referred to above, any further equity cure or other injection of further funds would have to be made using additional funds provided by the shareholders. Notwithstanding the current discussions with shareholders described above, there is no certainty that any such funds will be available.

Consequently, should consent of the Group's shareholders to the provision of certain equity cure funding as currently under discussion 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 the test period to end March 2010 would be dependent upon discussions with the Group's lender. This would also be the case if any equity cure funding provided as a result of the current discussions noted above was insufficient to prevent breaches of financial covenants in relation to subsequent test periods, and consent of the Group's 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 Maltby 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.

The Maltby directors also recognise that existing forecasts indicate a significant shortfall in respect of the covenant test period to end March 2011 and that, notwithstanding the provision (if agreed) of equity cure funding as currently under discussion with the Group's shareholders, if this position remains unchanged over the next twelve months, the Maltby directors would be facing the same issues as are described above in respect of the financial covenants to be tested as at that time.

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Notes to the financial statements

at 31 March 2009

1. Accounting policies (continued)

Going Concern (continued)

The Maltby directors are aware of the ongoing litigation in respect of certain matters relating to the acquisition of a parent undertaking of the Company, EMI Group Limited (formerly EMI Group plc) between, amongst others, shareholders of the Group and the Group's lender. Neither the Company, Maltby Capital, Maltby Investments nor any other member of the Group is a party to these proceedings.

The Group is currently engaged with the Trustee of the EMI Group Pension Fund regarding the cash contributions under the scheme funding regime. To date, the Trustee and the Group have not been able to reach agreement regarding a long-term funding and investment policy for the Fund. As a result, the Pensions Regulator has become involved in the process. The final outcome of this process is unknown at this stage. Absent agreement between the Group and the Trustee, this process is not likely to be resolved until March 2010 at the earliest. Proposals put forward by the Group, on which agreement was not reached, targeted a deficit in the order of £10 million to £200 million based on a valuation at 31 March 2008. Should contributions to remove any deficit in the Fund be required prior to the expiry of the Group's existing banking facilities, the Maltby directors consider that, absent agreement from the lender, funding for these contributions, which would be likely to be spread over a number of years, will need to be met by additional funds from the shareholders. There is no certainty that such funds will be available.

The directors have concluded that the combination of these circumstances represents a material uncertainty that may cast significant doubt upon the ability of the Company 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.

Statement of cash flows

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

Investments

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

Foreign currencies

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

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Notes to the financial statements

at 31 March 2009

1. Accounting policies (continued)

Revenue

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

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

- Copyright, royalty, license and other income: revenue is recognised based on the contractual arrangements entered into with third parties, which allow them to exploit the Group's intellectual property in return for a fee. Where the Group is entitled to a fee which is not dependent upon future usage, revenue is recognised when the Group has fulfilled its contractual commitments. Where the fees due to the Group are dependent upon usage, revenue is recognised based upon that usage. Where no reliable basis is available for estimating such usage, revenue is recognised when reported to the Group by third parties;

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

Depreciation

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

The annual rates used are:

Freehold buildings	2%
Plant, machinery and furniture	10% - 33.33%
Computer software	33.33%
Computer hardware	25%
Motor vehicles	25%

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

Stocks

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

Advances

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

Leasing

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

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Notes to the financial statements

at 31 March 2009

1. Accounting policies (continued)

Retirement benefits

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

Classification of financial instruments issued by the Company

Under FRS 25 Financial Instruments: Disclosure and Presentation, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

2. Turnover

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

3. Notes to the profit and loss account

Net operating profit/(loss) is stated after charging:

		2009	*2008*
		£000	*£000*
Amortisation		–	8
Depreciation		6,986	7,995
Operating leases	– plant and machinery	5	10,327
	– land and buildings	4	55
Other equipment rental	– plant and machinery	17	31
Exchange (loss)/gain on foreign currency balances		(687)	40
Exceptional items		14,910	30,314

4. Auditors' remuneration

	2009	*2008*
	£000	*£000*
Audit of these financial statements	173	119

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Notes to the financial statements

at 31 March 2009

5. Directors' remuneration

	2009	*2008*
	£000	*£000*
Emoluments	113	3,743
Company contributions to defined benefit pension scheme	1	101
Company contributions to defined contribution pension scheme	23	91
	137	3,935

	2009	*2008*
	No.	*No.*
The following number of directors are accruing benefits under the defined benefit pension scheme	1	4

The remuneration, excluding pension contributions, of the highest paid director was £112,761 (2008–£2,040,682). Company contributions to the highest paid director's defined benefit pension scheme were £1,366 (2008 – £23,688).

The following directors benefited from qualifying third party indemnity provisions:

C Roling
A Chadd
S Alexander
R Punja
C Kennedy
D N Kassler
D D'Urbano

6. Staff costs

	2009	*2008*
	£000	*£000*
Wages and salaries	26,062	35,070
Social security costs	2,415	2,516
Other pension costs	3,376	4,658
Employee costs relating to termination payments	4,353	–
	36,206	42,244

This includes remuneration paid to directors of the company of £137,000 (2008 – £3,935,000).

	2009	*2008*
	No.	*No.*
The average monthly number of employees, including directors, was	406	588

Notes to the financial statements

at 31 March 2009

7. Exceptional items

Recognised in arriving at operating result through administrative expenses:

	2009	*2008*
	£000	*£000*
Reorganisation costs	7,573	–
Provision against artists' advances and artists' contracts	–	29,856
Fixed asset impairment	–	458
Fixed asset disposal	7,337	–
	14,910	30,314

The directors assessed the future recoupability of artist's advances and artists' contracts and determined that no provision should be made at 31 March 2009 (2008 - £29,856). The exceptional items have no impact on tax or minority interests.

Subsequent to the acquisition by Maltby Acquisitions Limited in 2007, the Company engaged experts and consultants in order to understand more fully the commercial and geographical markets in which the Group operates, assess and redefine the strategic objectives of the Group, and start to implement a wide-ranging restructuring exercise to fundamentally reshape the business.

The restructuring includes repositioning EMI Music's labels to ensure Artists an Repertoire are a primary focus, developing new partnerships with artists that are based on transparency and trust, moving to a global functional structure for each of the Company's key activities including marketing, manufacturing, sales and distribution and eliminating significant duplications to simplify the process.

During the year ended 31 March 2009, the restructuring initiatives continued, including the rationalisation of the property portfolio resulting in assets being disposed of and creating a charge of £7,337,000 in the year. The amounts recognised in the income statement during the year were primarily consultancy fees and redundancy costs in relation to the outsourcing of certain finance, manufacturing and distribution activities and fees paid to third parties to exit leases in advance of their agreed dates.

The costs incurred in performing the strategic review and implementing the resulting restructuring during the year were £7,573,000 (2008: Nil).

8. Interest receivable

	2009	*2008*
	£000	*£000*
Bank	68	42
Interest receivable from group undertakings	26,702	28,811
Investment interest	250	–
	27,020	28,853

Notes to the financial statements

at 31 March 2009

9. Interest payable and similar charges

	2009	*2008*
	£000	*£000*
Bank interest	–	163
Interest payable to group undertakings	21,021	19,917
Other external	190	153
	21,211	20,233

10. Tax

(a) Tax on profit/(loss) on ordinary activities

	2009	*2008*
	£000	*£000*
UK corporation tax		
UK corporation tax on profit/(loss) of the period	–	–
Foreign tax		
Current year	–	–
Adjustments in respect of previous periods	–	–
Total current tax charge	–	–
Deferred tax		
Originating and reversal of timing differences	–	–
Effect of changes in tax rate on opening liability	–	–
Changes in recoverable amounts of deferred tax assets	–	–
	–	–
Tax on profit/(loss) on ordinary activities	–	–

(b) Factors affecting current tax charge

	2009	*2008*
	£000	*£000*
Profit/(loss) on ordinary activities before tax	21,095	(22,103)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 – 30%)	5,907	(6,631)
Effect of:		
Disallowable expenditure	6,035	3,720
Group relief surrendered/(received) for payment of greater than 28% (2008 - 30%)	(11,942)	2,911
Adjustments in respect of previous year	–	–
Total current tax charge	–	–

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10. Tax (continued)

(c) Factors affecting future tax charge

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

(d) Deferred tax

At the balance sheet date the company had an unrecognised deferred tax asset of £10,406,350 (2008 - £12,483,000) in relation to capital allowances available for offset against future profits.

11. Intangible fixed assets

	Catalogue costs	*Goodwill*	*Total*
	£000	*£000*	*£000*
Cost:			
At 31 March 2008 and at 31 March 2009	5,159	190	5,349
Amortisation:			
At 31 March 2008	5,159	190	5,349
Provided during the year	–	–	–
At 31 March 2009	5,159	190	5,349
Net book value:			
At 31 March 2009	–	–	–
At 31 March 2008	–	–	–

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

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12. Tangible fixed assets

	Freehold property £000	*Leasehold property £000*	*Equipment, plant and vehicles £000*	*Total £000*
Cost:				
At 31 March 2008	9,057	1,082	85,142	95,281
Additions	–	–	2,257	2,257
Transfers	300		(300)	–
Disposals	(4,051)	–	(6,277)	(10,328)
At 31 March 2009	5,306	1,082	80,822	87,210
Depreciation:				
At 31 March 2008	3,162	435	64,913	68,510
Charged during the year	333	30	6,623	6,986
Disposals	(876)	–	(2,115)	(2,991)
At 31 March 2009	2,619	465	69,421	72,505
Net book value:				
At 31 March 2009	2,687	617	11,401	14,705
At 31 March 2008	5,895	647	20,229	26,771

13. Investments

	2009 £000
Cost and net book value:	
At 31 March 2009 and 31 March 2008	49,213

The company's principal subsidiary undertakings at 31 March 2009 were:

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

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13. Investments (continued)

EMI Records Limited acquired a controlling interest in Trooper Enterprises Limited during the year. The legal form of this acquisition is that a loan of £5,800,000 was made in August 2007, which converted into equity in Trooper Enterprises Limited in December 2008. Trooper Enterprises will re-imburse all royalties payable by EMI to Iron Maiden up to the value of EMI Records Limited's investment in Trooper Enterprises Limited. Therefore, under FRS 5 – Reporting the Substance of Transactions, the commercial substance of this arrangement is that the investment in Trooper Enterprises Limited is an advance to Iron Maiden, and the value of the investment has therefore been disclosed along with other un-recouped artist advances in Trade Debtors. Since the loan was issued, royalties earned have reduced the outstanding balance to £5,368,000 and this is the value included within artist advances.

14. Stock

	2009	*2008*
	£000	*£000*
Finished goods and goods for resale	249	2,683

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

During the year, the company changed its stock holding arrangements and its legal entitlement to stock has reduced.

15. Debtors

	2009	*2008*
	£000	*£000*
Trade debtors	30,432	25,866
Artist advances	10,507	12,726
Amounts owed by fellow subsidiary undertakings	216,744	145,942
Other debtors and prepayments	11,666	7,454
Interest-free loans to subsidiary undertakings	816	17,436
Interest-free loans to parent undertaking	17,027	289
Interest-bearing loans to other group undertakings	4,643	4,643
Interest-bearing loans to subsidiary undertakings	22,473	21,388
Interest-bearing loan to parent undertaking	229,006	213,595
	543,314	449,339

Included within artist advances of £10m at 31 March 2009 are advances of £3.5m which are expected to be recovered more than 12 months after the balance sheet date.

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

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16. Creditors: amounts falling due within one year

	2009	*2008*
	£000	*£000*
Trade creditors	14,221	3,403
Royalties payable	57,072	56,335
Amounts payable to fellow subsidiary undertakings	5,235	3,030
Other taxes including VAT and social security costs	692	–
Accruals and deferred income	21,476	18,452
Interest-free loan from parent undertaking	6,712	6,542
Interest-bearing loan from parent undertaking	73,398	69,570
Interest-bearing loans from other group undertakings	–	1,306
Interest-free loans from subsidiary undertakings	170,306	165,004
	349,112	323,642

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

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

	2009	*2008*
	£000	*£000*
Trade creditors	1,931	1,660
200,000,000 3.75% cumulative redeemable preference shares of £1 each	200,000	200,000
	201,931	201,660

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

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

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

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

Notes to the financial statements

at 31 March 2009

18. Provisions for liabilities

	Reorganisation £000	Audit claims £000	Other £000	Total £000
Provisions at 31 March 2008	1,119	417	2,894	4,430
Charged to profit and loss account	655	4,574	1,835	7,198
Released/(Utilised) during the year	(1,277)	50	(196)	(1,406)
Provisions at 31 March 2009	497	5,041	4,533	10,071

The balance at 31 March 2009 includes provisions for future closure and reorganisation of operations of £497,000 (2008 – £1,119,000) and future audit claims of £5,041,000 (2008 – £417,000).

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

19. Share capital

	2009 £000	*2008 £000*
Authorised:		
Ordinary shares of £1 each	112,605	112,605
Allotted, called up and fully paid:		
Ordinary shares of £1 each	112,605	112,605

20. Reconciliation of shareholders' deficit and movement on reserves

	Share capital £000	*Profit and loss account £000*	*Total share-holders' deficit £000*
At 31 March 2008	112,605	(82,931)	29,674
Profit for the year	–	21,095	21,095
At 31 March 2009	112,605	(61,836)	50,769

21. Obligations under leases and hire purchase contracts

At 31 March 2009, annual commitments under operating leases in respect of land and buildings were as follows:

	2009 £000	*2008 £000*
Expiring in less than one year	3,449	3,471
Expiring in the second to fifth years inclusive	2,197	15,148
Expiring after the fifth year	4,614	31,263

	10,260	49,882

21. Obligations under leases and hire purchase contracts (continued)

At 31 March 2009, annual commitments under other operating leases were as follows:

	2009	*2008*
	£000	*£000*
Expiring in less than one year	304	316
Expiring in the second to fifth years inclusive	–	274
	304	590

22. Contingent liabilities

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

At 31 March 2009 the company had provided a guarantee to its clearing bank in respect of borrowings of other Maltby Capital Limited UK group undertakings. The guarantee was limited to the amount of cash held by the company with the bank. This amounted to £4,402,000 (2008 – £31,400,000).

23. Pension commitments

As noted in the Company accounting policies, the Company is a member of the EMI Group Pension Fund (UK fund), a defined benefit pension scheme for EMI Group Ltd (formerly EMI Group plc) and its subsidiaries in the UK. As the Company is unable to identify its share of the underlying assets and liabilities of the UK fund, in accordance with FRS 17 it has accounted for it as a defined contribution scheme. The cost of contributions by the Company to the UK fund during the year was £2,919,000 (2008 – £4,252,000).

As at 31 March 2009, the UK fund had Scheme assets with a fair value of £858 m (2008 - £958m) and a present value of defined benefit obligations of £804 m (2008 - £847m) resulting in a net pension asset of £54 m (2008 – asset of £111m). The date of the last actuarial valuation of scheme assets and obligations was 31 March 2006, and was based on the projected unit method.

The cost of the contributions to defined contribution schemes during the year was £457,000 (2008 - £720,000).

24. Financial commitments

The group has commitments, which are largely performance related, to pay advances to artists and repertoire owners amounting to approximately £80,765,000 at 31 March 2009 (2008 – £85,694,000).

Notes to the financial statements

at 31 March 2009

25. Related party transactions

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

26. Charge over assets

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

27. Post balance sheet events

On 14 December 2009 the Company acquired 100% of the issued share capital of Loudclothing.com Limited, an online seller of recorded music related clothing. The acquisition was settled for cash consideration of £679,000.

28. Parent undertaking

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

The ultimate parent undertaking and controlling party is TFCP Holdings Limited, a company registered in Guernsey. The parent undertaking of the largest group to consolidate these financial statements is Maltby Capital Limited. Copies of the consolidated financial statements of Maltby Capital Limited can be obtained from the Company Secretary at 27 Wrights Lane, London W8 5SW.