EMI Records Limited

Directors' Report and Financial Statements

31 March 2010

Registered No 68172

Registered No 68172

Directors

S P Naughton
D N Kassler

Secretaries

Mawlaw Secretaries Limited

Auditors

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

Registered Office

27 Wrights Lane
London
W8 5SW

Directors' report

The directors submit their report and financial statements for the year ended 31 March 2010

Results and dividends

The profit for the year, after taxation, was £48,526,000 (2009 – profit of £21,095,000)

The directors do not recommend payment of a dividend for the year (2009 – £nil)

Principal activities and review of business development

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

Financial review

Turnover has increased by £15,154,000 (18 %) compared to the prior year Operating profit has increased by £32,254,000 (211%) after charging exceptional items relating to reorganisation of £2,801,000 (2009 £14,910,000) Net assets have increased by £48,526,000 (96%)

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 206million (including acquisition fees of £28million) 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 2010, the restructuring initiative continued with significant costs incurred being recognised in the profit and loss account of £2,801,000 (2009 £14,910,000)

EMI Records Limited operates as part of the Maltby Capital Limited group ("the Group") and has provided a guarantee to the Group's lender, as such the Company is affected by the terms of the Group's banking facilities The directors have prepared the financial statements on a going concern basis, which they believe is appropriate as set out in note 1 to these financial statements

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 2010 was £50,341,000 (2009 £37,058,000)

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 dırectors who served durıng the year are shown below

D N Kassler (appoınted 8 July 2009)
A Chadd (resıgned 12 August 2009)
C Kennedy (resıgned 8 July 2009)
D D'Urbano (appoınted 15 August 2009, resıgned 31 March 2010)

S P Naughton (appoınted 31 March 2010)

None of the dırectors had any ınterests ın the shares of the Company durıng the year

All dırectors benefited from qualıfyıng thırd party ındemnıty provısıons ın place durıng the financıal perıod and at the date of thıs report

Political and charitable contributions

Durıng the year, the Company made varıous charıtable contrıbutıons totallıng £22,000 (2009 – £95,000)

Employment of disabled persons

It ıs Company practıce to encourage, wherever practıcable, the employment of dısabled persons and to provıde appropriate opportunıtıes for theır traınıng, career development and promotıon When employees become dısabled whıle ın the servıce of the Company, every effort ıs made to rehabılıtate them ınto theır former jobs or some other suıtable alternatıve

Employee involvement

The Company has contınued to further ıts employee ınvolvement polıcıes These ınclude the provısıon of ınformatıon to employees and consultatıon wıth theır representatıves on matters affectıng them, as well as the regular communıcatıon of financıal ınformatıon and detaıls of the Company's performance

Supplier payment policy

The Company negotıates payment terms wıth ıts supplıers on an ındıvıdual basıs, wıth the normal spread beıng payment at the end of the month of delıvery plus 30 to 60 days Agreement to the applıcable payment terms ıs secured ın every case

The Company emphasıses the ımportance of prompt payment to small-sızed busınesses ın lıne wıth UK governmental and CBI ınıtıatıves

At 31 March 2010 the Company had an average of 50 days' purchases outstandıng ın trade credıtors (2009 – 50)

Disclosure of Information to Auditors

The dırectors who held office at the date of approval of thıs dırectors' report confirm that, so far as they are each aware, there ıs no relevant audıt ınformatıon of whıch the Company's audıtors are unaware, and each dırector has taken all the steps that he ought to have taken as a dırector to make hımself aware of any relevant audıt ınformatıon and to establısh that the Company's audıtors are aware of that ınformatıon

Directors' report (continued)

Auditor

KPMG LLP have expressed their willingness to continue in office as auditors and in accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the Board

S P Naughton
Director

27 Wrights Lane
London
W8 5SW

29 September 2010

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under Company law the directors must not approve the financial statements unless they are satisfied that they 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Report of the independent Auditor, KPMG LLP, to the Members of EMI Records Limited

We have audited the financial statements of EMI Records Limited for the year ended 31 March 2010 set out on pages 8 – 26 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 out audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

•give a true and fair view of the state of the Company's affairs as at 31 March 2010 and of its profit for the year then ended,

•have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and

•have been prepared in accordance with the requirements of the Companies Act 2006

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 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

Maltby Investments Limited is the principal borrower within the Group The ability of Maltby Investments Limited 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 conditional commitment received from the Group's shareholders to provide certain equity cure funding relating to the covenant test periods to 31 December 2010, there is no certainty that such funding will be sufficient to effect all the cures required in relating to those test periods Furthermore, current indications are that further funds will be required from the Group's shareholders for cure payments in respect of test periods ending 2011 No agreement has been reached with the Group's shareholders for such further equity injections, nor is there certainty that such an agreement will eventually be reached, or will be reached within the time available under the Group's banking facilities

Report of the independent Auditor, KPMG LLP, to the Members of EMI Records Limited (continued)

Emphasis of matter - Going concern (continued)

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 Group's 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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion,

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- The financial statements are not in agreement with the accounting records and returns, or
- Certain disclosures of directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit

Hugh Green, Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

1 October 2010

Profit and loss account

for the year ended 31 March 2010

	Note	2010 £000	2009 £000
Turnover	2	100,229	85,075
Cost of sales		(4,496)	(4,408)
Gross profit		95,733	80,667
Distribution costs		(2,544)	(2,464)
Administrative expenses			
Before exceptional items		(43,552)	(52,882)
Reorganisation costs	7	(2,801)	(7,573)
Fixed asset impairment	7	(1,553)	(7,337)
		(47,906)	(67,792)
Other operating income		2,257	4,875
Operating costs		(45,649)	(62,917)
Net operating profit	3	47,540	15,286
Interest receivable	8	3,485	27,020
Interest payable and similar charges	9	(2,499)	(21,211)
Profit on ordinary activities before taxation		48,526	21,095
Tax on profit on ordinary activities	10	–	–
Profit on ordinary activities after taxation	20	48,526	21,095

As stated in the Director's report, the results above for the year ended 31 March 2010 and 31 March 2009 are all derived from continuing activities

The notes on pages 11 to 26 form part of these financial statements

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

Statement of total recognised gains and losses

for the year ended 31 March 2010

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £48,526,000 in the year ended 31 March 2010 (2009 – profit of £21,095,000)

Balance sheet

at 31 March 2010

	Note	2010 £000	2009 £000
Fixed assets			
Intangible assets	11	1,890	–
Tangible assets	12	10,093	14,705
Investments	13	49,213	49,213
		61,196	63,918
Current assets			
Stocks		13	249
Debtors	15	653,802	543,314
Cash at bank and in hand		38,982	4,402
		692,797	547,965
Creditors: amounts falling due within one year	16	(445,508)	(349,112)
Net current assets		247,289	198,853
Total assets less current liabilities		308,485	262,771
Creditors: amounts falling due after more than one year	17	(202,436)	(201,931)
Provisions for liabilities	18	(6,754)	(10,071)
Net assets		99,295	50,769
Capital and reserves			
Called up share capital	19,20	112,605	112,605
Profit and loss account	20	(13,310)	(61,836)
Equity shareholders' funds	20	99,295	50,769

The notes on pages 11 to 26 form part of these financial statements

The financial statements were approved by the Board of Directors on 29 September 2010 and were signed on its behalf by

S P Naughton
Director
29 September 2010

Registered No 68172

Notes to the financial statements

at 31 March 2010

1. Accounting policies

Basis of preparation

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

EMI Records Ltd operates as part of the Maltby Capital Limited group ("the Group") and has provided a guarantee to the Group's lender, as such the Company 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

Maltby Investments Limited ('Maltby Investments Limited'), an indirect parent undertaking of the Company, is the principal borrower within the Group Maltby Investments made the following disclosures within its financial statements for the year ended 31 March 2010, approved on 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

Notes to the financial statements (continued)

at 31 March 2010

1. Accounting policies (continued)

Basis of preparation (continued)

In order to meet financıal covenant tests ın respect of several quarterly penods ended sınce 30 September 2008 the Group applıed funds orıgınally provıded by the ultımate shareholders under equıty cure provısıons wıthın the bankıng facılıtıes as follows

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

The equıty cure ın relatıon to the quarter ended 31 March 2010 was effected on 10 June 2010 out of new equıty raısed from the ultımate shareholders of £78 1m together wıth £9 4m already held by Maltby Capıtal Lımıted ("Maltby Capıtal") These equıty cures were made to ensure that the EMI Musıc dıvısıon remaıned complıant wıth the covenants relatıng to ıts financıng facılıtıes No cure was requıred for the EMI Musıc Publıshıng dıvısıon

The financıal statements are prepared on a goıng concern basıs In preparıng the financıal statements on thıs basıs the dırectors have taken account of the followıng matters

1 The Group meets ıts day to day workıng capıtal requırements and medıum term fundıng requırements through ıts bankıng facılıtıes whıch are repayable from 2014 and 2015

The dırectors have prepared base case tradıng and cash flow forecasts for a perıod ın excess of one year from the date of approval of these financıal statements whıch project that the total amount of each of the facılıtıes ıs not exceeded However, there are a number of rısks attached to these projectıons ıncludıng the current general economıc clımate, ınherent rısks that exıst ın the musıc market of market growth or declıne varyıng from the rates expected and the nature of the Group's busıness ıs such that there can be consıderable unpredıctable varıatıon ın the tımıng of earnıngs and cash ınflows ıf there ıs a change ın the forecast release date for key projects

2 The latest projectıons for the Group ındıcate that funds of up to £26 9m ın aggregate wıll be requıred for cure purposes ın respect of the 12 month test perıods endıng on 30 June 2010, 30 September 2010 and 31 December 2010 Maltby Capıtal has receıved a commıtment from the ultımate shareholders to provıde ıt wıth further ınjectıons up to thıs amount provıded that (ı) no "Default" under the Group's bankıng facılıtıes ıs contınuıng at the tıme of ınjectıon and (ıı) at least 3 busıness days' notıce of the cure amount requıred ıs gıven by Maltby Capıtal to the ultımate shareholders In turn, the Maltby Capıtal wıll make funds of up to £26 9m ın aggregate avaılable to the Company ın relatıon to the test perıods remaınıng ın 2010, provıded that (ı) no "Default" under the Group's bankıng facılıtıes ıs contınuıng at the tıme of ınjectıon, (ıı) the provısıon of such funds would result ın the financıal covenants beıng complıed wıth, and (ııı) at least 5 busıness days' notıce of the cure amount requıred ıs gıven by the Company to Maltby Capıtal In agreeıng the amount of funds to be commıtted, no headroom ın excess of the expected level of further cure requırements for the three 12 month perıods referred to above has been ıncluded and there are uncertaıntıes assocıated wıth the forecasts and projectıons for the busıness whıch could result ın earnıngs and cash flows beıng below theır forecast levels wıthout mıtıgatıng factors occurrıng

Notes to the financial statements (continued)

at 31 March 2010

1. Accounting policies (continued)

Basis of preparation (continued)

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

Notes to the financial statements (continued)

at 31 March 2010

1. Accounting policies (continued)

Basis of preparation (continued)

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 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

Group financial statements

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group accounts as the company is included in the consolidated accounts of a larger group headed by Maltby Capital Limited These financial statements present information about the company as an individual undertaking and not about its group

Notes to the financial statements (continued)

at 31 March 2010

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)

Notes to the financial statements (continued)

at 31 March 2010

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

		2010	*2009*
		£000	*£000*
Depreciation		5,512	6,986
Operating leases	– plant and machinery	–	5
	– land and buildings	–	4
Other equipment rental	– plant and machinery	–	17
Exchange (loss)/gain on foreign currency balances		(597)	(687)
Exceptional items		2,801	14,910

4. Auditors' remuneration

	2010	*2009*
	£000	*£000*
Audit of these financial statements	162	173

Notes to the financial statements (continued)

at 31 March 2010

5. Directors' remuneration

	2010	*2009*
	£000	*£000*
Emoluments	–	113
Company contributions to defined benefit pension scheme	–	1
Company contributions to defined contribution pension scheme	–	23
	–	137

	2010	*2009*
	No	*No*
The following number of directors are accruing benefits under the defined benefit pension scheme	–	1

The remuneration, excluding pension contributions, of the highest paid director was £Nil (2009– £112,761) Company contributions to the highest paid director's defined benefit pension scheme were £Nil (2009 – £1,366)

The directors are employed and remunerated as directors or executives of, or consultants to, other group undertakings

The following directors benefited from qualifying third party indemnity provisions

A Chadd
D N Kassler
D D'Urbano

6. Staff costs

	2010	*2009*
	£000	*£000*
Wages and salaries	21,745	26,062
Social security costs	1,980	2,415
Other pension costs	2,516	3,376
Employee costs relating to termination payments	2,088	4,353
	28,329	36,206

This includes remuneration paid to directors of the company of £Nil (2009 – £137,000)

	2010	*2009*
	No	*No*
The average monthly number of employees, including directors, was	384	406

Notes to the financial statements (continued)

at 31 March 2010

7. Exceptional items

Recognised in arriving at operating result through administrative expenses

	2010	2009
	£000	£000
Reorganisation costs	2,801	7,573
Fixed asset disposal	1,533	7,337
	4,334	14,910

The directors assessed the future recoupability of artist's advances and artists' contracts and determined that no provision should be made at 31 March 2010 (2009 - £Nil) 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 2010, the restructuring initiatives continued including the rationalisation of the property portfolio resulting in assets being disposed of and creating a charge of £1,500,000 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

The costs incurred in performing the strategic review and implementing the resulting restructuring during the year were £2,801,000 (2009 £7,573,000)

8. Interest receivable

	2010	2009
	£000	£000
Bank	186	68
Interest receivable from group undertakings	3,299	26,702
Investment interest	-	250
	3,485	27,020

Notes to the financial statements (continued)

at 31 March 2010

9. Interest payable and similar charges

	2010 £000	2009 £000
Bank interest	2	–
Interest payable to group undertakings	2,270	21,021
Other external interest	227	190
	2,499	21,211

10. Tax

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

	2010 £000	2009 £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

	2010 £000	2009 £000
Profit/(loss) on ordinary activities before tax	48,526	21,095
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of % (2009 – 28%)	13,587	5,907
Effect of		
(Allowable)/Disallowable expenditure	(1,771)	6,035
Group relief surrendered/(received) for payment of 28% (2009 - 28%)	(11,816)	(11,942)
Total current tax charge	–	–

Notes to the financial statements (continued)
at 31 March 2010

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 £8,525,696 (2009 - £10,406,350) in relation to capital allowances available for offset against future profits

11. Intangible fixed assets

	Catalogue costs *£000*	*Goodwill* *£000*	*Total* *£000*
Cost:			
At 31 March 2009	5,159	190	5,349
Additions	–	1,890	1,890
At 31 March 2010	5,159	2,080	7,239
Amortisation:			
At 31 March 2009	5,159	190	5,349
Provided during the year	–	–	–
At 31 March 2010	5,159	190	5,349
Net book value:			
At 31 March 2010	–	1,890	1,890
At 31 March 2009	–	–	–

Catalogue costs are amortised over the lesser of their estimated useful economic lives and 20 years Goodwill arises from the acquisition of Loud Clothing com Ltd

Notes to the financial statements (continued)

at 31 March 2010

12. Tangible fixed assets

	Freehold property £000	*Leasehold property £000*	*Equipment, plant and vehicles £000*	*Total £000*
Cost				
At 31 March 2009	5,306	1,082	80,822	87,210
Additions	–	–	3,036	3,036
Transfers	–	–	–	–
Disposals	(3,504)	–	(5,860)	(9,364)
At 31 March 2010	1,802	1,082	77,998	80,882
Depreciation				
At 31 March 2009	2,619	465	69,421	72,505
Charged during the year	16	30	5,474	5,520
Disposals	(1,477)	–	(5,759)	(7,236)
At 31 March 2010	1,158	495	69,136	70,789
Net book value				
At 31 March 2010	644	587	8,862	10,093
At 31 March 2009	2,687	617	11,401	14,705

13. Investments

	2010 £000
Cost and net book value	
At 31 March 2010 and 31 March 2009	49,213

The company's principal subsidiary undertakings at 31 March 2010 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%
Loudclothing com Limited	Merchandise trading company	100%

Notes to the financial statements (continued)

at 31 March 2010

13. Investments (continued)

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

During the prior year, EMI Records Limited acquired a controlling interest in Trooper Enterprises Limited 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 £3,750,000 and this is the value included within artist advances

14. Stock

	2010	*2009*
	£000	*£000*
Finished goods and goods for resale	13	249

The stock holding arrangements changed in the prior year and therefore the stock held has reduced

15. Debtors

	2010	*2009*
	£000	*£000*
Trade debtors	24,780	30,432
Artist advances	16,926	10,507
Amounts owed by fellow group undertakings	33,555	216,744
Other debtors and prepayments	8,418	11,666
Interest-free loans to subsidiary undertakings	816	816
Interest-free loans to parent undertaking	397,426	17,027
Interest-free loan to group undertakings	16,620	–
Interest-bearing loans to other group undertakings	77,360	4,643
Interest-bearing loans to subsidiary undertakings	23,442	22,473
Interest-bearing loan to parent undertaking	54,459	229,006
	653,802	543,314

Included within artist advances of £16,926,000 at 31 March 2010 are advances of £5,247,000 which are expected to be recovered more than 12 months after the balance sheet date

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

Notes to the financial statements (continued)

at 31 March 2010

16. Creditors: amounts falling due within one year

	2010	*2009*
	£000	*£000*
Trade creditors	20,219	14,221
Royalties payable	47,094	57,072
Amounts payable to fellow subsidiary undertakings	131,343	5,235
Other taxes including VAT and social security costs	404	692
Accruals and deferred income	34,730	21,476
Interest-free loan from parent undertaking	170	6,712
Interest-bearing loan from parent undertaking	–	73,398
Interest-bearing loans from group undertakings	27,251	–
Interest-free loans from subsidiary undertakings	184,297	170,306
	445,508	349,112

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

	2010	*2009*
	£000	*£000*
Trade creditors	2,436	1,931
200,000,000 3 75% cumulative redeemable preference shares of £1 each	200,000	200,000
	202,436	201,931

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 (continued)

at 31 March 2010

18. Provisions for liabilities

	Reorganisation £000	Audit claims £000	Other £000	Total £000
Provisions at 31 March 2009	497	5,041	4,533	10,071
Charged to profit and loss account	–	(1,910)	314	(1,596)
Released/(Utilised) during the year	(24)	(1,150)	(547)	(1,721)
Provisions at 31 March 2010	473	1,981	4,300	6,754

The balance at 31 March 2010 includes provisions for future closure and reorganisation of operations of £473,000 (2009 – £497,000) and future audit claims of £1,981,000 (2009 – £5,041,000)

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

19. Share capital

	2010 £000	*2009 £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' funds /deficit £000*
At 31 March 2009	112,605	(61,836)	50,769
Profit for the year	–	48,526	48,526
At 31 March 2010	112,605	(13,310)	99,295

21. Obligations under leases and hire purchase contracts

At 31 March 2010, annual commitments under operating leases in respect of land and buildings were as follows

	2010 £000	*2009 £000*
Expiring in less than one year	416	3,449
Expiring in the second to fifth years inclusive	1,664	2,197
Expiring after the fifth year	2,496	4,614
	4,576	10,260

Notes to the financial statements (continued)

at 31 March 2010

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

At 31 March 2010, annual commitments under other operating leases were as follows

	2010	*2009*
	£000	*£000*
Expiring in less than one year	64	304
Expiring in the second to fifth years inclusive	14	–
	78	304

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 2010 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 £38,982,000 (2009 – £4,402,000)

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 £2,480,000 (2009 – £2,919,000)

As at 31 March 2010, the UK fund had Scheme assets with a fair value of £858m (2009 - £858m) and a present value of defined benefit obligations of £804m (2009 - £804 m) resulting in a net pension asset of £54m (2009 – asset of £54 m) 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 £36,000 (2009 - £457,000)

24. Financial commitments

The group has commitments, which are largely performance related, to pay advances to artists and repertoire owners amounting to approximately £63,214,000 at 31 March 2010 (2009 – £80,765,000)

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

Notes to the financial statements (continued)

at 31 March 2010

26. Charge over assets

EMI Records Lımıted acceded, on 28 January 2008, to a debenture dated 30 August 2007 (amended, supplemented, novated, extended, restated or varıed from tıme to tıme) and made between, amongst others, Maltby Acquısıtıons Lımıted (formerly known as Maltby Lımıted) and Cıtıbank, NA, London Branch as Securıty Agent, pursuant to whıch the company charged, by way of mortgage or fixed charge or assıgn by way of securıty (as approprıate) all of theır rıght, tıtle and ınterest ın certaın assets, charge all or substantıally all of theır present and future assets and undertakıng by way of first floatıng charge ın favour of the Securıty Agent to secure the repayment of the Secured Lıabılıtıes (as defined thereon) and covenant that they wıll, on demand, pay and dıscharge the Secured Lıabılıtıes

27. Ultimate parent undertaking

The Company's ımmedıate parent undertakıng ıs EMI Lımıted, a company ıncorporated ın England and Wales

The ultımate parent undertakıng and controllıng party ıs TFCP Holdıngs Lımıted, a company regıstered ın Guernsey The parent undertakıng of the largest group to consolıdate these financıal statements ıs Maltby Capıtal Lımıted Copıes of the consolıdated financıal statements of Maltby Capıtal Lımıted can be obtaıned from the Company Secretary at 27 Wrıghts Lane, London W8 5SW