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Administration International Limited

Report and Financial Statements

31 March 2006

Registered No. 2332045

Directors
D O Miller
M Ashby
I Hanson

Secretary
Mawlaw Secretaries Limited

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

Bankers
Coutts & Co
446 Strand
London WC2R 0QS

Solicitors
Russells
Regency House
1-4 Warwick Street
London W1R 6LJ

Registered Office
27 Wrights Lane
London W8 5SW

Directors' report

The directors present their report and financial statements for the year ended 31 March 2006.

Results and dividends

The loss for the year, after taxation, was £458,766 (2005 – loss of £166,742). The directors do not recommend the payment of a dividend.

Principal activity

The principal activity of the company is the sale of promotional material, merchandise and finished products from its warehouse to the licensees and internet customers of Administration International Limited. The warehouse has been subsequently closed.

The company is part of the Music division of EMI Group.

Financial review

During the financial year, turnover decreased by 42%, with a decrease of 103% in the gross loss. The loss on ordinary activities increased by 175%.

The turnover of Administration International is generated from the sale of physical music products created by artists discovered and developed by Mute Records Limited. The sales achieved through exports, or internet sales via the Mute Bank site. The company employs 7 staff and bears all employment costs. There were no unusual costs incurred during the year.

Analysis of KPIs

The Company is part of the Music division of EMI Group, for which the key performance indicators have been identified as operating margin and market share. Operating margin is discussed in the financial review paragraph above. It is not possible to calculate market share at the individual statutory level.

Key risks and uncertainties

The principle risks and uncertainties facing the company concern the value of the worldwide market for recorded music which has declined by about 20% since 2001 according to data from the IFPI. Whilst we believe that new digital products and services will drive a return to overall industry growth, there are no assurances of the timing or extend of any improvement. A continuing decline in sales of physical products could, if not offset by increasing digital revenues, result in reduced revenues and profits. We are dependant on identifying, signing and retaining talented artists whose new releases are well received and whose music will continue to generate revenues for years to come. Competition for such talent is intense and our financial results would be adversely affected if we fail to identify, sign and retain artists under terms that are attractive to us.

Directors and their interests

The directors who served throughout the year, except as noted, are shown below:

D O Miller
I Hanson
M Ashby

The directors had no interests in the share capital of the company at any time during the year.

Any directors' shareholdings in the ultimate parent undertaking are disclosed in the EMI Group PLC published accounts.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Directors' report (continued)

Completeness of information to Auditors

In the case of the persons who are directors at the time when the report is approved under Companies Act 1985 Section 234A:

(a) So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board

Director

29 AUG 2006

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the 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 Administration International Limited

We have audited the company's financial statements for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 13. 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 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.

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

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

Basis of audit opinion

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

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

Independent auditors' report

to the members of Administration International 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 2006 and 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.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

30 August 2006

Profit and loss account

for the year ended 31 March 2006

	Notes	2006 £	2005 £
Turnover	2	528,449	909,071
Cost of sales		(534,139)	(700,473)
Gross (loss)/profit		(5,690)	208,598
Selling and distribution costs		(93,278)	(111,830)
Administrative expenses		(359,798)	(263,510)
Loss on ordinary activities before taxation	3	(458,766)	(166,742)
Tax on loss on ordinary activities	5	–	–
Retained loss for the financial year	10	(458,766)	(166,742)

Statement of total recognised gains and losses
for the year ended 31 March 2006

There are no recognised gains or losses other than those recognised in the profit and loss account.

Balance sheet

at 31 March 2006

	Notes	2006 £	2005 £
Fixed assets			
Tangible assets	6	687	860
Current assets			
Debtors	7	1,728,054	1,727,382
Cash at bank and in hand		5,011	4,993
		1,733,065	1,732,375
Creditors: amounts falling due within one year	8	(3,381,469)	(2,922,186)
Net current liabilities		(1,648,404)	(1,189,811)
Total assets less current liabilities		(1,647,717)	(1,189,811)
Capital and reserves			
Called up share capital	9	1,000	1,000
Profit and loss account	10	(1,648,717)	(1,189,951)
Equity shareholders' deficit	10	(1,647,717)	(1,189,951)

The financial statements were approved by the Board on
and signed on its behalf by

Mark Ashby

Director

2 9 AUG 2006

Notes to the financial statements

at 31 March 2006

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and *under the historic cost convention.*

The financial statements have been prepared under the going concern concept as the ultimate parent undertaking has agreed to meet any other liabilities as they fall due should the company's income not be sufficient.

To aid comparability with the current year, certain payroll and distribution costs were reclassified from cost of sales to administration and distribution costs in the prior year profit and loss account.

The adoption of FRS 21 has resulted in a change in accounting policy in respect of proposed equity dividends. If the company declares dividends to the holders of equity instruments after the balance sheet date, the company does not recognise those dividends as a liability at the balance sheet date, even if those dividends are paid or approved by the shareholders before the financial statements are authorised for issue. The aggregate amount of equity dividends proposed before approval of the financial statements, which have not been included in liabilities at the balance sheet date, are disclosed in the notes to the financial statements. Previously, proposed equity dividends were recorded as liabilities at the balance sheet date. Interim dividends are recorded as appropriations from equity in the year in which they are paid.

Turnover

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 and can be reliably measured. Revenue is measured at fair value after making provision in respect of expected future return of goods and services supplied by the Company prior to the balance sheet date.

- Royalty and other income: all royalty and other income is recognised when it has been earned and can be reliably measured.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows:

Fixtures, fittings and office equipment – 20% per annum

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.

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.

Notes to the financial statements

at 31 March 2006

1. Accounting policies (continued)

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. 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.

Statement of cash flows

The company has taken advantage of the exemption under FRS1 (revised) not to prepare a cash flow statement as it is a subsidiary which is at least 90% controlled by the ultimate parent undertaking (see note 12).

2. Turnover

Turnover arose wholly from the principal activity of the company, and originated wholly in the United Kingdom.

3. Loss on ordinary activities before taxation

This is stated after charging:

	2006	*2005*
	£	*£*
Depreciation of fixed assets	173	215
Auditors' remuneration	4,000	6,000

Directors' remuneration is paid by EMI Records UK.

4. Staff costs

	2006	*2005*
	£	*£*
Wages and salaries	225,186	213,971
Social security costs	21,093	19,997
Pension costs	28,367	22,877
	274,646	256,845

The average number of employees during the year is as follows:

	2006	*2005*
	No.	*No.*
Employees	7	8

Notes to the financial statements

at 31 March 2006

5. Tax on loss on ordinary activities

(a) The company tax charge is £nil (2005 – £nil).

(b) Factors affecting the current tax charge for the year:

	2006 *No.*	*2005* *No.*
Loss on ordinary activities before tax	(458,766)	(166,742)
Tax at UK standard rate (30%)	(137,629)	(50,022)
Effects of:		
Group relief surrendered for £nil consideration	137,629	50,022
Current tax for the year	–	–

(c) Factors that may affect future tax charges:

The company is primarily liable for UK corporation tax profits, however no provision has been made in these financial statements for either current or deferred taxation as an undertaking has been received from its ultimate parent undertaking, EMI Group PLC, that the latter will assume responsibility for any such taxation so long as the company remains a subsidiary undertaking. In view of the undertaking received, no disclosure is made in these financial statements of any potential liability to taxation.

6. Tangible fixed assets

	Fixtures, fittings and office equipment £
Cost:	
At 1 April 2005	27,717
Additions	–
At 31 March 2006	27,717
Depreciation:	
At 1 April 2005	26,857
Provided during the year	173
At 31 March 2006	27,030
Net book value:	
At 31 March 2006	687
At 1 April 2005	860

Notes to the financial statements

at 31 March 2006

7. Debtors

	2006	2005
	£	£
Trade debtors	129,145	151,354
Amounts owed by group undertakings	1,598,909	1,576,027
	1,728,054	1,727,382

8. Creditors: amounts falling due within one year

	2006	2005
	£	£
Trade creditors	20,386	22,834
Amounts owed to group undertakings	3,292,365	2,854,056
Taxation and social security	62,983	39,296
Other creditors	5,735	6,000
	3,381,469	2,922,186

9. Share capital

	2006	2005
Authorised	£	£
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid	£	£
1,000 ordinary shares of £1 each	1,000	1,000

10. Reconciliation of movements in shareholders' deficit

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£	£	£
At 31 March 2004	1,000	(1,023,209)	(1,022,209)
Loss for the year	–	(166,742)	(166,742)
At 31 March 2005	1,000	(1,189,951)	(1,188,951)
Loss for the year	–	(458,766)	(458,766)
At 31 March 2006	1,000	(1,648,717)	(1,647,717)

Notes to the financial statements

at 31 March 2006

11. Pensions

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 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 £28,367.

As at 31 March 2006, the UK fund had Scheme assets with a fair value of £963m and a present value of defined benefits obligations of £951m resulting in a net pension asset of £12m. 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 contributions to defined contribution schemes during the year was £nil (2005 – £nil).

12. Related party transactions

The company has taken advantage of the exemptions conferred by FRS 8 allowing it not to disclose details of transactions with other group undertakings.

13. Ultimate parent undertaking

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

The company's ultimate parent undertaking is EMI Group PLC, incorporated in England and Wales. Copies of its group financial statements, which include the company, are available from EMI Group PLC, 27 Wrights Lane, London, W8 5SW.