



Destiny's child



Elton John



Robert Plant



Joss Stone

# On the cover

## Front Cover

**Destiny's Child** – Urban Management /  
Live Agency / Merchandising

**Elton John** – Management /  
Merchandising

**Robert Plant** – Management / Records /  
Merchandising

**Joss Stone** – Management /  
Merchandising

## Back Cover

**Morrissey** – Management / Records /  
Live Agency / Merchandising / DVD

**Babyshambles** – Records

**Mario** – Urban Management

**Kelly Osbourne** – Records /  
Merchandising / DVD

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## Executive Chairman's Statement

Trading for the Group has been profitable but adversely affected by some key operational issues that have arisen during the period under review and which have caused a substantial underperformance against expectations.

For the first six months to 31 March 2005 Group Turnover declined by 4.5% to £85.0m (2004: £89.0m). EBITDA for the period declined by 38% to £6.6m (2004: £10.6m) whilst normalised pre-tax profit was £1.3m (2004: £6.9m). Normalised diluted earnings per share were 0.05p (2004: 1.58p). Net debt (excl Convertible Loan Notes) at 31 March 2005 was £87.7m (30 September 2004: £52.3m) whilst the average net debt for the half-year ended 31 March 2005 was £84.8m (full year 2004 average: £65.6m).

### Key financials

	Half year ended 31 March 2005 (unaudited) £m	Half year ended 31 March 2004 (unaudited) £m	Year ended 30 Sept 2004 (audited) £m
Turnover: including acquisitions	85.0	89.0	221.0
Cost of sales	(48.9)	(52.5)	(140.3)
Gross profit	36.1	36.5	80.7
Administrative expenses excluding depreciation and amortisation	(29.5)	(25.9)	(55.9)
Group EBITDA	6.6	10.6	24.8
Depreciation	(1.4)	(1.4)	(3.1)
Amortisation	(3.5)	(3.1)	(6.5)
Total administrative expenses	(34.4)	(30.4)	(65.5)
Group operating profit – continuing operations	1.7	6.2	15.2

### Key Issues

#### Slippage:

The Group's growth strategy for its Recorded Product Division over the past two years has focused on acquisitions and signings of high profile established artists capable of generating significant sales.

Against this background, the Group's Recorded Product Division has suffered from a greater degree of slippage of releases than previously experienced, particularly in Sanctuary Urban. Many of these releases have been rescheduled into the second half and should therefore lead to a greater second half performance. However, some of these releases, together with releases originally scheduled for the second half, are now expected to be delayed until the Group's next financial year. The total number of forecast unit sales that slipped out of the first half was almost 1.3 million, reducing turnover by £9.3m. In addition, costs

were incurred in relation to releases that slipped, particularly within Sanctuary Urban.

#### Infrastructure costs

In line with its strategy, the Group has stepped up its infrastructure to support its longer-term expectations in growth of sales and profits. Regrettably the slippage that has been experienced in record sales has impacted profits and we have not met our original targets for the period. The Board believes that this will be redressed in the second half and thereafter as the pipeline of expected new releases is fulfilled.

The Board intends to establish an infrastructure more appropriate to its realised business going forward and as such, the Board intends to cut costs, though not at the expense of damaging the Group's prospects.

#### Current Review of Operations

In the current situation, the Board has initiated a review of the Group's operations globally. Although

## Executive Chairman's Statement *continued*

too early to report on all of the actions that will result from this, the Board has already identified significant cost reduction targets and actions. These are expected to result in annualised cost reductions of at least £7m to £8m. The Board plans to launch the cost cutting programme immediately and will update shareholders on progress at the Preliminary results stage or earlier if it is appropriate to do so. Exceptional costs associated with these changes will be non-recurring and will total some £4m to £5m in total, all of which will be incurred in the current financial year.

Simultaneously, the Board has identified for possible sale a number of discrete businesses and assets. The Board will update the shareholders as soon as further progress is made.

### Debt Position

At the end of the period the Group's indebtedness was £87.7m plus a £21.5m Convertible Loan. This Convertible Loan is now at £30m as the final £8.5m tranche was drawn down in April 2005 to assist with the acquisition of Twenty-First Artists. The operational and structural issues outlined in this statement have combined to increase the Group's indebtedness to a higher level than was forecast and a higher level than the Board is comfortable with going forward. The circa £20m increase in average net senior debt this first half over the previous full year is primarily accounted for by some £26.5m in relation to cash consideration for acquisitions over the last eighteen months which have had an accumulating impact in the first half of this year. There is also the accumulating impact of a net circa £8.6m increase in recording and merchandising advances over the same eighteen-month period. In keeping with the normal seasonal trading patterns of our business, our indebtedness has risen since the end of 31 March 2005 but will decrease by the financial year-end and is targeted to be at a similar level as at 31 March 2005; as stated above the company is engaged on a number of initiatives to reduce indebtedness further. The Board has had discussions with its bank and its bondholder and is confident of their continued support.

### Acquisition

On 1 April 2005, the Group announced the acquisition of Twenty-First Artists, which brought

with it the management of Sir Elton John. Sir Elton is currently touring and performing on a sell-out tour, before returning to his series of shows in Las Vegas, which continue with 50 shows per year until 2008. His music for 'Billy Elliot The Musical' has helped the show to receive unanimously excellent reviews. Twenty-First also manages James Blunt whose debut album, 'Back To Bedlam', is now approaching double Platinum in the UK with the album at Number Two and the single at Number Three.

### Outlook

The Board views the underperformance and reduced profitability as regrettable and unacceptable but also as the result of a set of issues that are being urgently addressed. The Board is confident in the longer-term strength of Sanctuary's integrated business model and that the Group can return to acceptable levels of profit and cash generation.

Encouraging indications include, for example, that last week (19 June 2005) Sanctuary artists (managed or recorded) had 11 singles and six albums in the UK Top 75 Charts. This included three singles in the Top Ten and three albums in the Top 20. In addition, it was announced (also in June) that Sir Elton John's 'Red Piano' contract in Las Vegas had been extended by 50 shows per year for 2006, 2007 and 2008.

Furthermore, the Group's stronger trading period has always been in the second half of the financial year when many tours, festivals and record releases occur. This remains true for this year, despite the knock-on effect of some of the slippage experienced in Recorded Product. However, with this degree of shortfall in the first half, the adverse impact of higher costs and some additional slippage from the second half into the next financial year, the market should expect that EBITDA for the full year is likely to be substantially less than last year's EBITDA.



**Andy Taylor**  
Executive Chairman

## Operational Review

### Recorded Product

Sanctuary Records ended the half year with turnover down 11% at £36.3m. As stated above, a significant number of releases planned for this period have slipped back in the schedules. A good proportion of these have either already been released in the second half or are scheduled to be released prior to the end of September. However, some releases will inevitably move into the first half of our next financial year.

New artists signed in the period to Sanctuary Records for release in the current financial year and beyond included Robert Plant, Lou Reed, Earth Wind & Fire, Simple Minds, William Orbit, The Charlatans, Bizarre and Status Quo.

'The Mighty Rearranger', Robert Plant's album with his band The Strange Sensation, was released in May 2005 and gave him his career best solo chart positions. Worldwide sales of the album have now reached over 500,000.

Billy Idol, another high profile recent signing, released his album 'Devil's Playground' in March and this has now sold over 350,000 copies worldwide.

A highlight in the period was the continued success of Morrissey's 'You are the Quarry' album, which achieved Platinum status in the UK and has now sold over one million copies worldwide. In April 2005 we released the CD 'Live At Earl's Court', as well as the 'Who Put The M In Manchester' DVD, which has been a Top Five DVD in the UK, US and many international territories.

Blue Nile's 'High', their first album in eight years and their first for Sanctuary Records, debuted at Number Ten in the UK charts, and has sold 100,000 units worldwide.

'One Word', Kelly Osbourne's first single from her new album 'Sleeping In The Nothing', debuted in the UK Chart at Number Nine. In the US it is the first record ever to be Number One in the Dance Radio, Dance Clubs and Dance Singles charts simultaneously. The album was released this month worldwide.

Tegan And Sara are breaking through in the US where their album 'So Jealous' has sold over 100,000 copies and their single 'Walking With A Ghost' is garnering strong airplay.

Our Rough Trade label produced some notable successes for new acts such as Emiliana Torrini and Hal. The Libertines' second album on Rough Trade gave Sanctuary Records its first Number One album and has sold over 340,000 units to date. The Libertines' debut album, 'Up The Bracket' now has total sales in excess of 600,000 copies. Babyshambles, formed by The Libertines' lead singer Pete Doherty, released a single, 'Killamangiro', which reached Number Eight in the UK Chart and an album is planned for release this Autumn.

Adam Green's 'Gemstones' was a very strong seller in Europe, selling over 130,000 copies, and other successes included British Sea Power's second album, 'Open Season', with sales of 90,000 to date and Arcade Fire's album 'Funeral' with sales of over 125,000 outside North America.

In the period we also announced a joint venture with leading pop/punk label Drive-Thru Records and this is performing well, with acts such as Halifax, Hidden In Plain View and Allister building strong fan bases from a predominantly younger rock audience.

The Special Markets operation exploits Sanctuary Records' extensive catalogue to create and develop exciting new product and carefully packaged reissues across a wide range of musical genres.

'Teenage Kicks', has now sold over 150,000 copies and a companion DVD was released earlier this month. 'Reggae Love Songs 2', another 2 CD compilation, has now sold over 100,000 copies, following the success of 'Reggae Love Songs 1'.

Other catalogue releases included 'The Sixties Album' and 'The Seventies Album' which have sold 60,000 and 30,000 respectively. Catalogue releases tend to have long retail and online life spans and we will expect to see ongoing good monthly sales for all these titles.

## Operational Review *continued*

Sanctuary Visual Entertainment's catalogue of quality music audio-visual releases continued to build, with new titles featuring Morrissey, Wu Tang Clan and Mary J Blige.

'Who Put The M In Manchester', the DVD of Morrissey's live show recorded last year has sold over 100,000 copies to date, Wu Tang Clan's 'Disciples of The 36 Chambers' has sold 50,000 and Mary J Blige's 'Live From The House Of Blues' and 'Live In Los Angeles' have combined sales of over 80,000.

We have also been active in selling our music audio-visual title for TV broadcast, which provides another income stream, whilst earlier DVD releases from the likes of Iron Maiden, Lynyrd Skynyrd, The Who and Bob Marley continue to generate good sales worldwide.

'Born To Boogie', a double DVD featuring Marc Bolan and T Rex, was a priority release in May 2005 and reached Number One in the UK Music DVD Chart. Sales for this title have now reached over 60,000 worldwide.

### **Artist Management**

We have continued to attract high profile artists to our worldwide management operation, allowing us to create a critical mass of acts and business functions.

With the acquisition of Twenty-First Artists, the management company for Sir Elton John, we also obtained the management of other artists including rising star James Blunt. Elton's career has spanned more than 35 years and he is one of the world's most successful touring artists and one of the top-selling solo artists of all time, with sales of close to a quarter of a billion records worldwide. Twenty-First Artists generates strong revenues from all of Elton's activities, which in 2005/6 include a world tour, an ongoing series of dates at Caesar's Palace in Las Vegas as well as the musical score for the hit musical 'Billy Elliot'. James Blunt's debut album, 'Back To Bedlam', has achieved great critical acclaim and he is poised to be the biggest selling new artist in the UK this year

reaching the UK Top Two in June with total sales of over 450,000 to date.

Joss Stone, aged 18 and already one of the world's highest profile artists, has been represented by Sanctuary Artist Management since April. She has sold over five million albums, with particularly strong sales in the US and UK, and was recently named spokeswoman for the Gap clothing company, featuring in their 2005 Summer and Autumn campaigns.

Mario, a new young signing to our Urban Management operation, has proved to be one of the year's most successful artists. His single, 'Let Me Love You', was Number One in the US and European Singles Charts and Number Two in the UK and his album, 'Turning Point', held the Number One position in the US Chart for nine consecutive weeks with sales of over one million to date.

Destiny's Child's latest album, 'Destiny Fulfilled', was released in November and has had strong sales worldwide, rapidly achieving triple Platinum in the US. In October the act signed a major endorsement and sponsorship deal with McDonalds and a major world tour commenced in May and continues into the autumn, with sell out dates across Europe. At the conclusion of this campaign Beyoncé, Kelly and Michelle all have major projects planned that will see them in the spotlight for the foreseeable future. Beyoncé's endorsement deals with brands including Pepsi, L'Oreal and Tommy Hilfiger continue to thrive and she has a major role in the new Pink Panther movie, as well as being announced as the star of the forthcoming Dream Girls movie.

Nelly had Top Five albums worldwide with his albums 'Sweat' and 'Suit', which have sold over five million copies to date. In addition to his current World Tour he has also just starred in the hit movie The Longest Yard.

Morrissey, Slipknot and Manic Street Preachers all toured extensively during the period, with worldwide sales of the new Slipknot album approaching three million. New acts such as Mastodon, The Departure, The Black Velvets, and

yourcodenameis:milo all continued building on their fan bases with successful live dates and promotional activity around new product. Fightstar, a rock act co-founded by ex-Busted singer Charlie Simpson, also signed for management and their official debut single in June entered the UK Chart at Number Nine. Platinum artists Kelis, Fat Joe and UB40 are now also Management clients and all have new albums this year, with UB40 having a UK Chart debut at 20. Groove Armada's Greatest Hits album is also approaching Platinum sales in the UK.

Funeral for a Friend continues to develop as expected with recent Number 15 and Number 12 UK Chart debuts for the single and second album respectively, along with an extensive tour sold out weeks in advance.

Within Temptation's new album has sold over 350,000 to date in Europe alone with Gold and Platinum albums in Germany and Holland and an extensive Summer European Tour.

Iron Maiden's latest DVD, 'The Early Days', was released in November and achieved Top Five chart positions across Europe. The band is playing an extensive series of headlining major festival and stadium dates for summer 2005 across Europe and the UK. This includes a record breaking sell out of 55,000 tickets in just two hours for Gothenburg's Ullevi Stadium and headline dates at the sold out Carling Reading/Leeds Festivals. The band is also the special guest act on the Ozzfest tour in the US, and in August releases a DVD and live CD, 'Death On The Road' based on their 2003 tour.

### **Sanctuary Entertainment**

Our roster in this area includes many acts that combine careers in both music and acting. Russell Watson, multi-million selling opera singer, released his latest album, 'Amore Musica', in October and it debuted at Number One in the UK Classical Chart. He has also just completed a sold out tour of the UK, Japan and Australasia. Marti Pellow completed a sold out tour of the UK with Wet Wet Wet and appeared on stage in the musical 'Chicago' on Broadway and in the UK.

We are now also able to offer all our artists new opportunities in TV, film and theatre through Associated International Management, which we acquired in November 2004. This can help enhance the artists' revenue streams and allow them to develop their talents.

### **Merchandising**

Our merchandising operation, Bravado, has enjoyed strong sales in the first half of the year from its burgeoning retail sales business. Merchandising sales are now much less tied to live touring, which is high volume and low margin, and increasingly geared to selling through both online and traditional retail outlets.

We continue to enjoy strong sales through major retail chains including Hot Topic, KMart, Target, H&M and HMV for products that range from the traditional, such as T shirts and posters, through to licensed products that become lifestyle accessories.

New acts signed to Bravado in the period include Jessica Simpson, Ashlee Simpson, Metallica, Jesse McCartney, Brian McFadden and Girls Aloud.

We also continue to exploit the exciting new possibilities for our clients' IP rights offered by technologies such as ringtones, wallpapers, games and other applications for mobile phones in order to reach music fans.

Bravadolive, a new and unique series of online stores, launches this summer and allows us to create customised stores within artists' official websites for fans to purchase product seamlessly.

### **Live Agency**

Our live agencies continue to perform steadily and make a solid contribution to Group income, with acts such as Franz Ferdinand and McFly making a breakthrough in 2005. The first half of the year had major tours from The Darkness, Busted, Dido, Avril Lavigne, Faithless and Machine Head. The traditionally busier summer touring season features key acts such as Destiny's Child, Iron Maiden, Franz Ferdinand, Jamie Cullum, Kraftwerk, McFly, Slipknot and Slayer.

## Operational Review *continued*

### Music Publishing

New signings included Axl Rose of Guns N' Roses for a deal which covers all his catalogue as well as future songs including the forthcoming Guns N' Roses album, and UB40 for a deal to administer their catalogue. 2005 is UB40's 25th anniversary and their Greatest Hits compilation is released this Summer.

We also continue to sign and carefully develop new artists and songwriters such as Kate Aumonier, who has built a strong fan base via live performances and is now attracting critical acclaim.

Air-Edel, who also manage composers and arrange music for film, television and commercials, have been active with a number of high profile projects including the music for 'Harry Potter and the Goblet Of Fire', which will be released in November 2005.

### Group Services

Sanctuary's studios have maintained their reputation for providing high quality facilities for their clients.

Townhouse Studios has recorded or mastered projects for artists as diverse as Coldplay, Beyoncé, Robbie Williams, Gorillaz, Keane, Audioslave, McFly, Stereophonics, The Departure, The Ordinary Boys, Tony Iomi, Geri Halliwell, Goldfrapp, Do Me Bad Things, Ms Dynamite, Basement Jaxx, The Magic Numbers, Doves and Arcade Fire.

Sanctuary Post's clients include BBCTV Entertainment, BBC Worldwide, Discovery Networks Europe, National Geographic, Granada Media, Nickelodeon, Turner CNN, Turner Entertainments Networks International, Flextech, Endermol UK Productions, Wall to Wall Television, RDF for a varied range of audio-visual post-production projects.

Sanctuary Mobiles worked for clients including MTV, Done & Dusted, Splinter Films and CC Lab.

### Digital

Sanctuary sees the digital exploitation of its assets as a key element in the development of new revenue streams for the Group. With such a diverse portfolio of rights we believe that we are in a strong position to originate innovative and creative deals with major technology companies in order to make our catalogue of music based product available in both the mobile space and through web based service providers.

We have had a digital strategy in place for several years and our long-term process of digitising all our recorded music catalogues is now in its third year. We have agreements in place with all the main digital distribution entities including iTunes, Napster and Sony Connect.

Although we would expect to see our digital income reach similar levels as for the major record companies, our 360-degree approach puts us in a strong position to be able to exploit additional digital and telecoms opportunities that are unavailable to record companies, for example, through merchandising and visual rights exploitation. In the telecoms market in particular, given the inclusion in our roster of high profile, global artists such as Nelly, Beyoncé and Joss Stone, the major mobile phone networks are seeking to negotiate visual rights deals with Sanctuary and we are in discussions with a number of them.

## Corporate and Social Responsibility

### Environmental Policy

The majority of our businesses have little impact on the environment but, where they do, we ensure a responsible approach is taken at all times and we are nonetheless committed to continually improving our policies and those of our suppliers towards the environment. We aim to comply with existing UK and European legislation and monitor the progress of such policies annually.

Board responsibility for our environmental policy rests with Executive Chairman Andy Taylor. Management of environmental issues is the responsibility of each division.

Whilst we are not a manufacturing company, we do recognise that there are areas in which we can make a difference to a cleaner and better environment. This also involves the education and training of employees in environmental issues and the environmental effects of their activities.

Initiatives include:

- all waste from our Head Office, which houses one third of our worldwide employees, is taken away and sorted for recycling. This minimises the frequency of waste collections and allows for proper sorting off the premises.
- we encourage the use of public transport by employees, with season ticket loans available to staff and cycle parking facilities provided. We have already reduced our fleet of company cars.

We continue to:

- aim to minimise waste wherever possible through better use of resources.
- aim to recycle as much paper and packaging material as possible.
- monitor our water and energy efficiency.

- minimise the use of solvents and lead-based paints.
- aim to use timber only from sustainable (managed) forests.
- seek to minimise noise disturbance to neighbours.
- phase out CFCs and ozone-depleting substances.

### Employment Policy

We are committed to our employees' welfare and personal and career development. To ensure a flexible and responsive workforce, we have invested significantly in training for all levels of our business and in the implementation of a progressive Management Trainee scheme.

Employees at Sanctuary have constant access to communication concerning significant matters affecting the operational and financial performance of the Group through information bulletins, intranet systems and meetings and they are actively encouraged to contribute to and involve themselves in the decision-making of all operating sectors.

We have two share option schemes and an Employee Benefit Trust. Also, in the UK, we operate a Save as you Earn (SAYE) share option scheme for all eligible employees.

Sanctuary is fully compliant with all new EU workplace and employment legislation and a programme of ongoing education is in place to ensure that line managers are fully up to date with any changes. It is the Group's policy to give every consideration to applications from disabled persons and to afford them full opportunity for appointment to and training for positions within their capabilities. Should an employee become disabled during employment with the Group, every effort is made to continue employment within his or her capacity where practicable or, failing that, in some suitable alternative capacity.

# Consolidated Profit and Loss Account

for the half year ended 31 March 2005

	Notes	Half year ended 31 March 2005 (unaudited) £000	Half year ended 31 March 2004 (unaudited) £000	Year ended 30 Sept 2004 (audited) £000
<b>Turnover:</b>				
Existing operations		<b>78,035</b>	88,994	207,935
Acquisitions		<b>6,993</b>	–	13,030
<b>Total turnover – continuing operations</b>	2	<b>85,028</b>	88,994	220,965
Cost of sales		<b>(48,945)</b>	(52,428)	(140,233)
<b>Gross profit</b>		<b>36,083</b>	36,566	80,732
<b>Total administrative expenses:</b>				
Amortisation		<b>(3,506)</b>	(3,080)	(6,476)
Depreciation		<b>(1,367)</b>	(1,392)	(3,154)
Other administrative expenses		<b>(29,514)</b>	(25,929)	(55,908)
<b>Total administrative expenses</b>		<b>(34,387)</b>	(30,401)	(65,538)
<b>Group operating profit:</b>				
Existing operations		<b>1,346</b>	6,165	14,627
Acquisitions		<b>350</b>	–	567
<b>Group operating profit</b>		<b>1,696</b>	6,165	15,194
Interest receivable and similar income		<b>63</b>	11	93
Exceptional item		–	–	(11,400)
Interest payable and other charges		<b>(3,940)</b>	(2,358)	(5,689)
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(2,181)</b>	3,818	(1,802)
Taxation on (loss)/profit on ordinary activities		<b>(587)</b>	(1,649)	(4,981)
<b>(Loss)/profit on ordinary activities after taxation</b>		<b>(2,768)</b>	2,169	(6,783)
Minority interests		<b>(886)</b>	56	(129)
<b>(Loss)/profit on ordinary activities for the financial period</b>		<b>(3,654)</b>	2,225	(6,912)
Dividends proposed		–	–	(1,528)
<b>Retained (loss)/profit for the financial period</b>		<b>(3,654)</b>	2,225	(8,440)
<b>Earnings per share:</b>				
Basic	3	<b>(1.07)p</b>	0.67p	(2.08)p
Diluted	3	<b>(1.07)p</b>	0.66p	(2.08)p
Normalised – diluted*	3	<b>0.05p</b>	1.58p	3.18p

\* Earnings per share: Normalised – diluted is calculated using (loss)/profit on ordinary activities after tax and minority interests for the financial period, having added back exceptional items and goodwill and intangible assets amortisation costs charged after gross profit over the diluted weighted average shares in issue during the period.

# Group Balance Sheet

at 31 March 2005

	Notes	Half year ended 31 March 2005 (unaudited) £000	Half year ended 31 March 2004 (unaudited) £000	Year ended 30 Sept 2004 (audited) £000
<b>Fixed assets:</b>				
Intangible assets		32,603	31,540	31,553
Goodwill		95,639	83,758	84,185
Tangible assets		13,734	12,834	13,652
Investments		17,907	29,950	17,907
Investments in joint venture				
Share of gross assets		2,124	–	2,135
Share of gross liabilities		(2,124)	–	(2,135)
		<b>159,883</b>	158,082	147,297
<b>Current assets:</b>				
Stocks		11,679	10,304	10,524
Advance payments to artists to secure rights: Amounts falling due within one year		18,555	19,677	16,432
Advance payments to artists to secure rights: Amounts falling due after one year		20,146	13,735	17,352
Debtors: Amounts falling due within one year		91,677	72,528	66,490
Debtors: Amounts falling due after one year		24,047	7,049	24,233
Cash at bank and in hand		6,457	10,451	20,046
		<b>172,561</b>	133,744	155,077
Creditors: Amounts falling due within one year		<b>(112,788)</b>	(82,337)	(93,639)
<b>Net current assets</b>		<b>59,773</b>	51,407	61,438
<b>Total assets less current liabilities</b>		<b>219,656</b>	209,489	208,735
Creditors: Amounts falling due after one year		<b>(78,995)</b>	(71,360)	(78,876)
Provisions for liabilities and charges		<b>(7,365)</b>	(5,317)	(7,011)
<b>Net assets</b>		<b>133,296</b>	132,812	122,848
<b>Capital and reserves:</b>				
Called up share capital		46,387	41,831	41,997
Shares to be issued		250	250	250
Share premium account		91,271	81,085	81,493
Profit and loss account		(5,841)	9,464	(1,235)
<b>Equity Shareholders' funds</b>		<b>132,067</b>	132,630	122,505
Minority interests		1,229	182	343
<b>Total capital employed</b>		<b>133,296</b>	132,812	122,848

## Consolidated Cash Flow Statement

for the half year ended 31 March 2005

	Notes	Half year ended 31 March 2005 (unaudited) £000	Half year ended 31 March 2004 (unaudited) £000	Year ended 30 Sept 2004 (audited) £000
Net cash flow from operating activities	8	<b>(20,604)</b>	1,324	7,197
Returns on investment and servicing of finance	9	<b>(3,877)</b>	(2,347)	(5,596)
Taxation		<b>(1,377)</b>	(49)	(168)
Capital expenditure and financial investment	9	<b>(4,417)</b>	(7,880)	(13,126)
Acquisitions and disposals	9	<b>(4,595)</b>	(8,961)	(9,288)
Equity dividends paid		–	–	(1,328)
Cash outflow before financing		<b>(34,870)</b>	(17,913)	(22,309)
Financing	9	<b>27,603</b>	18,662	21,482
<b>(Decrease)/increase in cash in the period</b>		<b>(7,267)</b>	749	(827)

## Reconciliation of Net Cash Flow to Movement in Net Debt

	Half year ended 31 March 2005 (unaudited) £000	Half year ended 31 March 2004 (unaudited) £000	Year ended 30 Sept 2004 (audited) £000
(Decrease)/increase in cash in the period	<b>(7,267)</b>	749	(827)
Cash flow from movement in debt and lease financing	<b>27,525</b>	3,408	(20,882)
Change in net debt resulting from cash flows	<b>(34,792)</b>	4,157	(21,709)
New Convertible Loan Notes	–	(21,500)	–
New finance leases	<b>(617)</b>	–	(500)
Movement in net debt in period	<b>(35,409)</b>	(17,343)	(22,209)
Net debt at 1 October 2004	<b>(73,852)</b>	(51,643)	(51,643)
<b>Net debt at 31 March 2005</b>	<b>(109,261)</b>	(68,986)	(73,852)

## Analysis of Net Debt

	At 30 Sept 2004 £000	Cash flow £000	Other non-cash changes £000	At 31 March 2005 £000
Cash in hand, at bank	20,046	(13,589)	–	<b>6,457</b>
Overdrafts	(16,054)	6,322	–	<b>(9,732)</b>
	3,992	(7,267)	–	<b>(3,275)</b>
Debt due within one year	(3,000)	(28,000)	–	<b>(31,000)</b>
Debt due after one year	(52,000)	–	–	<b>(52,000)</b>
Finance leases	(1,344)	475	(617)	<b>(1,486)</b>
	(52,352)	(34,792)	(617)	<b>(87,761)</b>
Convertible Loan Notes	(21,500)	–	–	<b>(21,500)</b>
	<b>(73,852)</b>	<b>(34,792)</b>	<b>(617)</b>	<b>(109,261)</b>

## Notes to the Financial Statements

### 1. Basis of Preparation of Financial Statements

The interim financial statements for the half year ended 31 March 2005 have been prepared in accordance with accounting policies consistent with those applied in the accounts for the year ended 30 September 2004, which were approved by the Directors on 11 February 2005. The interim financial statements do not constitute statutory accounts and are unaudited.

The financial information for the full year ended 30 September 2004 is extracted from the financial statements for that year, which have been filed with the Registrar of Companies and on which the auditors gave an unqualified report.

### 2. Segmental Analysis – Turnover

Analysis by class of business	Half year ended 31 March 2005 (unaudited) £000	Half year ended 31 March 2004 (unaudited) £000	Year ended 30 Sept 2004 (audited) £000
Recorded Product	36,264	40,727	127,341
Artist Services	46,740	45,620	87,678
Group Services	2,024	2,647	5,946
	<b>85,028</b>	88,994	220,965

### 3. Earnings per Share

Basic and diluted earnings per share have been calculated in accordance with FRS 14 – 'Earnings per Share'. Basic earnings per share have been calculated using losses of £3,654,000 (2004 earnings: £2,225,000) and a weighted average of shares in issue during the period of 340,308,973 (2004: 330,812,201).

Diluted earnings per share is equivalent to basic earnings per share as the effect of dilutive potential ordinary shares would decrease the net loss per share so the potential ordinary shares cannot be treated as dilutive in accordance with FRS 14.

In order to show results from operating activities on a comparable basis, a normalised diluted earnings per share has been presented which excludes amortisation costs from the adjusted earnings calculated following implementation of FRS 10 – 'Goodwill and Intangible Assets' in 1998.

Normalised diluted earnings per share have been calculated using earnings of £200,000 (2004: £5,546,000) and a weighted average of 382,331,312 shares (2004: 356,094,546).

### 4. Group profit before tax (normalised)

	Half year ended 31 March 2005 £000	Half year ended 31 March 2004 £000	Year ended 30 Sept 2004 £000
(Loss)/profit on ordinary activities before taxation	<b>(2,181)</b>	3,818	(1,802)
Exceptional item*	–	–	11,400
Goodwill amortisation	<b>2,524</b>	2,215	4,770
Acquired intangible asset amortisation	<b>982</b>	865	1,706
Normalised profit – continuing operations	<b>1,325</b>	6,898	16,074

\* The exceptional item relates to a provision against the Loan Notes issued as part of the disposal of the Cloud 9 Group of companies.

## Notes to the Financial Statements *continued*

### 5. Borrowings

	Half year ended 31 March 2005 £000	Half year ended 31 March 2004 £000	Year ended 30 Sept 2004 £000
<b>Analysis of loan repayments</b>			
<b>Bank loans and overdrafts:</b>			
Within one year and on demand	<b>40,732</b>	7,883	19,054
Between one and two years	<b>3,000</b>	3,000	3,000
Between two and five years	<b>49,000</b>	46,000	49,000
	<b>92,732</b>	56,883	71,054
<b>Convertible Loan Notes:</b>			
Between two and five years	<b>21,500</b>	21,500	21,500
<b>Total borrowings</b>	<b>114,232</b>	78,383	92,554

Bank loans and overdrafts of £92,732,000 are secured by fixed and floating charges over the assets of The Sanctuary Group plc and certain of its subsidiaries.

Cash at bank and in hand includes £4,181,000 relating to monies collected on behalf of client artists. The corresponding liabilities are included in creditors falling due within one year.

On 28 November 2003 the issue of up to £30,000,000 of 4.5% Convertible Loan Notes due 2008 and Warrants to subscribe for 8,919,722 Ordinary Shares was agreed at an Extraordinary General Meeting of the company. £18,000,000 of these Loan Notes were issued on 28 November 2003 with a further £3,500,000 being issued on 27 February 2004.

On 6 April 2005 a further £8,500,000 Loan Notes were issued. Whilst unconverted, these £8,500,000 Loan Notes will bear interest at a rate of 5.5% per annum, representing a discount on current rates being paid by the Group.

## 6. Called Up Share Capital

	Authorised		Issued and fully paid		Premium	Share warrants
	No. of shares	£000	No. of shares	£000	£000	No. of warrants
<b>Ordinary Shares of 12.5p each</b>						
At 1 October 2004	450,000,000	56,250	335,972,377	41,997		9,648,121
Issue of shares under share option scheme	–	–	358,361	44	38	–
Issue of shares in relation to acquisitions	–	–	34,768,128	4,346	9,743	–
<b>At 31 March 2005</b>	<b>450,000,000</b>	<b>56,250</b>	<b>371,098,866</b>	<b>46,387</b>		<b>9,648,121</b>

## 7. Reserves

	Share premium £000	Group profit and loss reserve £000
At 1 October 2004	81,493	(1,235)
Exchange movements	–	(952)
Issue of shares	9,781	–
Share issue costs	(3)	–
Loss attributable to members of the holding company	–	(3,654)
<b>At 31 March 2005</b>	<b>91,271</b>	<b>(5,841)</b>

The cumulative goodwill written off against Group reserves up to 30 September 1998 amounted to £16,117,000.

## Notes to the Financial Statements *continued*

### 8. Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	Half year ended 31 March 2005 (unaudited) £000	Half year ended 31 March 2004 (unaudited) £000	Year ended 30 Sept 2004 (audited) £000
<b>Operating profit</b>	<b>1,696</b>	6,165	15,194
Depreciation of tangible assets	<b>1,367</b>	1,392	3,154
Amortisation of goodwill and intangible assets (net of provision reversal)	<b>3,506</b>	3,080	6,476
Amortisation of intangible assets in cost of sales	<b>2,080</b>	1,123	2,785
Movement on Artist Royalty Balances	<b>4,644</b>	4,515	11,367
Profit on disposal of tangible assets	–	–	411
Loss on disposal of intangible assets	–	–	74
Increase in stocks	<b>(1,155)</b>	(650)	(869)
Increase in advances to artists to secure rights	<b>(9,562)</b>	(6,836)	(14,061)
Increase in debtors	<b>(21,137)</b>	(11,110)	(21,901)
(Decrease)/increase in creditors	<b>(1,091)</b>	5,128	6,084
Effect of foreign exchange rate changes	<b>(952)</b>	(1,483)	(1,517)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(20,604)</b>	1,324	7,197

## 9. Analysis of cash flows for headings netted in the cash flow

	Half year ended 31 March 2005 (unaudited) £000	Half year ended 31 March 2004 (unaudited) £000	Year ended 30 Sept 2004 (audited) £000
<b>Analysis of cash flows for headings netted in the cash flow:</b>			
Returns on investments and servicing of finance:			
Interest received	63	11	93
Interest paid	(3,869)	(2,282)	(5,538)
Interest element of finance lease rental payments	(71)	(76)	(151)
<b>Net cash outflow for returns on investments and servicing of finance</b>	<b>(3,877)</b>	(2,347)	(5,596)
Capital expenditure and financial investment:			
Purchase of tangible fixed assets	(805)	(1,232)	(3,846)
Purchase of intangible fixed assets net of specific funding	(3,612)	(6,648)	(9,239)
Sale of tangible fixed assets	–	–	124
Purchase of investments	–	–	(165)
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(4,417)</b>	(7,880)	(13,126)
Acquisitions and disposals:			
Purchase of subsidiary undertakings	(4,463)	(6,333)	(10,061)
Net cash acquired with subsidiaries	(132)	(2,628)	773
<b>Net cash outflow for acquisitions and disposals</b>	<b>(4,595)</b>	(8,961)	(9,288)
Financing:			
Issue of ordinary share capital (net of related expenses)	78	570	600
Capital element of finance lease rental payments	(475)	(408)	(618)
New secured loans: repayable within one to two years	28,000	–	–
New Convertible Loan Notes: repayable within two to five years	–	21,500	21,500
Decrease in long-term borrowings	–	(3,000)	–
<b>Net cash inflow from financing</b>	<b>27,603</b>	18,662	21,482

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