



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 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

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Morrisey



Babyshambles



Mario



Kelly Osbourne

