Notes to the financial statements

1. Authorisation of financial statements and statement of compliance with IFRS

The Group and Company financial statements of HMV Group plc for the period ended 26 April 2008 were authorised for issue by the Board of Directors on 30 June 2008, and the balance sheets were signed on the Board's behalf by Simon Fox and Neil Bright. HMV Group plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the Group and the Company are set out below.

The Company has taken advantage of the exemption permitted by Section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

2. Accounting policies

Basis of preparation

The consolidated financial statements of the Company and its subsidiaries are made up to the Saturday on or immediately preceding 30 April each year. Consequently, the financial statements for the current period cover the 52 weeks ended 26 April 2008, whilst the comparative period covered the 52 weeks ended 28 April 2007. The financial statements are prepared in accordance with applicable accounting standards and specifically in accordance with the accounting policies set out below.

The financial statements are presented in Pounds Sterling and are rounded to the nearest tenth of a million except where otherwise indicated. They are prepared on the historical cost basis, except for certain financial instruments, share-based payments and pensions that have been measured at fair value.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates.

Key sources of estimation uncertainty

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of goodwill and the measurement of defined benefit pension obligations. The Group determines whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. This involves estimation of future cash flows and choosing a suitable discount rate. Measurement of defined benefit pension obligations requires estimation of future changes in salaries and inflation, as well as mortality rates, the expected return on assets and the selection of a suitable discount rate.

Basis of consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiaries. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The results of subsidiaries acquired or disposed of during a period are included from the date that effective control passed or up to the effective date of disposal, as appropriate.

The income statement for the comparative period has been restated to reflect the disposal of the HMV Japan business, which has been classified as a discontinued operation.

Investments in subsidiaries

In its separate financial statements, the Company recognises its investments in subsidiaries at cost less impairments booked. Income is recognised from these investments only in relation to distributions received from post-acquisition profits. Distributions received in excess of post-acquisition profits are deducted from the cost of the investment.

Revenue

Revenue represents the value of goods supplied, less discounts given, and is recognised when goods are delivered and title has passed. It also includes commission earned on ticket sales and similar activities. Revenue excludes value added tax ('VAT') and similar sales-related taxes.

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate. Dividend income is recognised when the right to receive payment is established. Rental income from sub-let properties is recognised on a straight-line basis over the period of the sublease.

2. Accounting policies continued

Foreign currencies
Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at period end rates. The resulting foreign exchange differences are dealt with in the determination of profit (loss) for the period.

On consolidation, average exchange rates are used to translate the results of overseas companies and businesses, and the assets and liabilities of overseas companies and businesses are translated into Sterling at period-end rates. Differences on translation are recognised as a separate equity reserve, which was set to zero on transition to IFRS. On disposal of an overseas company or business, the cumulative exchange differences for that entity are recognised in the income statement as part of the profit or loss on disposal.

Exceptional items
The Group presents as exceptional items on the face of the income statement those material items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to better understand the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance. Exceptional items recognised in arriving at operating profit include (but are not limited to) those costs associated with integrating a newly acquired business, impairment losses and costs associated with restructuring the business.

Goodwill
The Group has utilised the exemption available in IFRS 1 whereby IFRS 3 Business Combinations has not been applied retrospectively to past business combinations. Goodwill arising on acquisitions prior to 25 April 1998 was set off directly against reserves. This goodwill has not been reinstated on the balance sheet on the transition to IFRS. Furthermore, it will not be transferred to the income statement if the subsidiary is disposed of or if the investment in the subsidiary becomes impaired.

Positive goodwill arising since 25 April 1998 is capitalised and classified as an asset on the balance sheet. On transition to IFRS, this goodwill was frozen at its carrying value on the date of transition, 25 April 2004, subject to impairment testing at that date. Positive goodwill arising on acquisitions since the Group's transition to IFRS is also capitalised, classified as an asset on the balance sheet and is not amortised. Goodwill is calculated as the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. All capitalised goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Property, plant and equipment
The capitalised cost of property, plant and equipment includes only those costs that are directly attributable to bringing an asset to its working condition for its intended use.

Depreciation of property, plant and equipment is calculated on cost, at rates estimated to write off the cost, less the estimated residual value, of the relevant assets by equal annual amounts over their estimated useful lives.

The annual rates used are:

Leasehold improvements	Period of the lease
Plant, equipment and vehicles	10 to $33^1/_3$%

The carrying values of property, plant and equipment are reviewed for material impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Leased assets
In respect of property operating leases, benefits received and receivable as an incentive to sign a lease, such as rent-free periods, premiums payable and capital contributions, are spread on a straight-line basis over the lease term. All other operating lease payments are charged directly to the income statement on a straight-line basis over the lease term. The Group has a number of lease agreements in which the rent payable is contingent on revenue, which is expensed in the period in which it is incurred.

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits of ownership of the leased assets, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Intangible assets
Intangible assets are valued at cost and amortised over their useful life unless the asset can be demonstrated to have an indefinite life. Intangible assets with finite lives are reviewed for impairment if there is any indication that the carrying value may not be recoverable. Intangible assets with an indefinite useful life are tested for impairment annually.

2. Accounting policies continued

Impairment of assets

The Group assesses at each reporting date whether there are indicators that an asset may be impaired. Assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets (cash-generating units). If any indicator of impairment exists, or when annual impairment testing is required, the Group makes an estimate of the asset's recoverable amount, being the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash inflows expected to be derived from the asset. Where the asset does not generate cash inflows that are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recognised in the income statement.

If there is an indication at the reporting date that previously recognised impairment losses no longer exist or may have decreased, the recoverable amount is again estimated. To the extent that the recoverable amount has increased, the previously recognised impairment loss is reversed. An impairment loss in respect of goodwill is not reversed.

Inventories

Inventories are stated at the lower of cost and net realisable value on a first-in, first-out basis. Net realisable value is based on estimated selling prices less further costs to be incurred to disposal.

Taxation

Current tax Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax Deferred income tax is recognised on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognised for all temporary differences and deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are not recognised for temporary differences associated with investments in subsidiaries and branches, as the Group has determined that undistributed profits will not be distributed in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and is not discounted.

Taxation is charged or credited directly to equity if it relates to items that are themselves charged or credited directly to equity, otherwise it is recognised in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. Accounting policies continued

Cash and cash equivalents
Cash and short-term deposits comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and short-term deposits less bank overdrafts that are payable on demand.

Interest bearing loans and borrowings
Interest bearing loans and borrowings are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Provisions
A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects the risks specific to the liability.

Pension costs
The Group operates both defined benefit and defined contribution pension schemes, the funds of which are held in separate, trustee administered funds.

The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The net retirement benefit obligation recognised in the balance sheet represents the present value of the liabilities of the defined benefit scheme as reduced by the market value of the defined benefit scheme assets.

Actuarial gains and losses are recognised directly in equity in full in the period in which they occur and are presented in the statement of recognised income and expense. Other income and expenses associated with the defined benefit scheme are recognised in the income statement.

The defined benefit scheme provides benefits to a number of Group companies. There is no agreement or policy for allocating a share of the defined benefit obligation to each participating entity. Consequently, the Company, as sponsoring employer of the defined benefit scheme, recognises the net pension obligation for the scheme. The other participating members of the scheme account for their relevant pension costs on a defined contribution basis.

Contributions to the defined contribution scheme are charged in the income statement as they become payable in accordance with the rules of the scheme.

Share-based payments
The cost of equity-settled transactions with employees granted on or after 7 November 2002, which had not vested by 1 January 2005, is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate pricing model.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market performance conditions, and hence the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. No expense is recognised for awards that do not ultimately vest.

Treasury Shares
HMV Group plc shares held by the Group's Employee Benefit Trust are classified in shareholders' equity as 'other reserve – own shares' and are recognised at cost. No gain or loss is recognised in the performance statements on the purchase, sale, issue or cancellation of equity shares.

Derivative financial instruments
The Group may from time to time use derivative financial instruments for hedging purposes, including cross-currency swaps, forward foreign exchange contracts, foreign currency options and interest rate swaps. The Group does not enter into derivative financial instruments for speculative purposes.

Derivative financial instruments are stated at their fair value. The fair value of forward foreign exchange contracts and currency options is their quoted market value at the balance sheet date, being the present value of the quoted forward price. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates.

2. Accounting policies continued

Hedge accounting

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. For these cash flow hedges, when the asset or liability for the hedged transaction is recognised in the balance sheet, the associated gains or losses on the hedging instrument previously recognised in equity are included in the carrying amount of the hedged asset or liability. Gains or losses realised on cash flow hedges are therefore recognised in the income statement in the same period as the hedged item.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is then transferred to the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity, whilst any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

Customer loyalty schemes

The fair value of loyalty points awarded is deferred until the awards are redeemed, after adjustment for the number of points expected never to be redeemed. Fair value is determined by reference to the value for which the points can be redeemed.

New accounting standards

The Group and the Company have adopted the following new accounting standards, amendments to accounting standards and interpretations, which are either mandatory for the first time for the financial year ending 26 April 2008 or have been adopted early as appropriate.

- IFRS 7 Financial Instruments: Disclosures, effective for periods beginning on or after 1 January 2007. This new accounting standard had no effect on reported income or net assets and liabilities. The additional required disclosures are given in Notes 26 and 27 to the accounts.
- IAS 1 Amendment – Presentation of Financial Statements: Capital Disclosures, effective for periods beginning on or after 1 January 2007. The required disclosures are given in Note 31 to the accounts.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (1 March 2007) clarifies the guidance for applying share-based payment arrangements to the separate financial statements of each group company. It has had no impact on the results or net assets of the Group but has led to a prior year adjustment in the Company's financial statements (see Note 31).

The following have been adopted but have no material impact on the Group or Company:

- IFRIC 8 Scope of IFRS 2 (1 May 2006)
- IFRIC 9 Reassessment of Embedded Derivatives (1 June 2006)
- IFRIC 10 Interim Financial Reporting and Impairment (1 November 2006)
- IFRIC 13 Customer Loyalty Programmes (1 July 2008)

The Group has not adopted early the requirements of the following accounting standards and interpretations, which have an effective date (shown in brackets) after the date of these financial statements:

- Amendment to IFRS 2 Share-based payment vesting conditions and cancellations (1 January 2009)
- IFRS 3 Business Combinations (revised 2008) (1 July 2009)
- IFRS 8 Operating Segments (1 January 2009)
- IAS 1 Presentation of Financial Statements (revised 2007) (1 January 2009)
- IAS 23 Borrowing Costs (1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (revised 2008) (1 July 2009)
- IFRIC 12 Service Concession Arrangements (1 January 2008)
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction (1 January 2008)

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements.

3. Segmental information

As a result of the disposal of HMV Japan during the period, the Group has been reorganised into three operating businesses – HMV UK & Ireland, HMV International, comprising HMV Canada, HMV Hong Kong and HMV Singapore, and Waterstone's. HMV is the music, DVD and electronic games retailing division that primarily trades under the HMV brand. Waterstone's is the book retailing division of HMV Group, primarily trading under the Waterstone's brand. Segment information about these businesses is presented below.

The Group's geographical segments are based on the location of the Group's operations in the United Kingdom, Rest of Europe, Asia and Canada.

The following tables present revenue, profit, employee numbers and certain asset and liability information regarding the Group's primary reporting format, business segments, for the periods ended 26 April 2008 and 28 April 2007.

							52 weeks ended 26 April 2008
					Continuing operations	**Discontinued operation**	
	HMV UK & Ireland £m	**HMV International £m**	**Total HMV £m**	**Waterstone's £m**	**Total £m**	**HMV Japan £m**	**Total operations £m**
Segment revenue	**1,079.0**	**231.6**	**1,310.6**	**564.3**	**1,874.9**	**61.2**	**1,936.1**
Operating profit before exceptional items	**41.4**	**8.5**	**49.9**	**16.3**	**66.2**	**0.1**	**66.3**
Operating exceptional items:							
Store closure costs	**–**	**–**	**–**	**(4.6)**	**(4.6)**	**–**	**(4.6)**
Segment operating profit	**41.4**	**8.5**	**49.9**	**11.7**	**61.6**	**0.1**	**61.7**
Net finance costs					**(9.6)**	**(0.2)**	**(9.8)**
Profit before taxation					**52.0**	**(0.1)**	**51.9**
Taxation					**(14.7)**	**–**	**(14.7)**
Profit after tax on disposal of discontinued operation					**–**	**51.8**	**51.8**
Profit for the period					**37.3**	**51.7**	**89.0**
Average employees (number)	**4,956**	**2,354**	**7,310**	**5,211**	**12,521**	**477***	**12,998**
Assets	**205.5**	**48.2**	**253.7**	**266.0**	**519.7**	**–**	**519.7**
Unallocated assets							**25.8**
Total assets							**545.5**
Liabilities	**(235.5)**	**(43.6)**	**(279.1)**	**(134.9)**	**(414.0)**	**–**	**(414.0)**
Unallocated liabilities							**(72.7)**
Total liabilities							**(486.7)**
Capital expenditure	**20.4**	**3.6**	**24.0**	**12.0**	**36.0**	**0.8**	**36.8**
Depreciation	**20.3**	**3.6**	**23.9**	**16.4**	**40.3**	**1.6**	**41.9**

Unallocated assets and liabilities include balances relating to cash, borrowings and taxation.

* HMV Japan was owned by the Group for four months of the year under review and average employee numbers have been pro-rated accordingly. The average for those four months was 1,431 employees.

3. Segmental information continued

	52 weeks ended 28 April 2007						
					Continuing operations	Discontinued operation	
	HMV UK & Ireland £m	HMV International £m	Total HMV £m	Waterstone's £m	Total £m	HMV Japan £m	Total operations £m
Segment revenue	932.2	215.1	1,147.3	537.5	1,684.8	209.7	1,894.5
Operating profit before exceptional items	24.3	13.4	37.7	16.3	54.0	3.3	57.3
Operating exceptional items:							
Costs of integration	–	–	–	(10.2)	(10.2)	–	(10.2)
Impairment of property, plant and equipment	(3.7)	–	(3.7)	(3.3)	(7.0)	–	(7.0)
Store closure costs	–	–	–	(2.9)	(2.9)	–	(2.9)
Restructuring costs	(2.9)	–	(2.9)	–	(2.9)	–	(2.9)
	(6.6)	–	(6.6)	(16.4)	(23.0)	–	(23.0)
Segment result	17.7	13.4	31.1	(0.1)	31.0	3.3	34.3
Corporate integration and restructuring costs					(1.7)	–	(1.7)
Operating profit					29.3	3.3	32.6
Net finance costs before exceptional items					(8.8)	(0.4)	(9.2)
Exceptional finance costs					(1.8)	–	(1.8)
Profit before taxation					18.7	2.9	21.6
Taxation					(4.5)	(1.0)	(5.5)
Profit for the period					14.2	1.9	16.1
Average employees (number)	4,789	2,485	7,274	5,332	12,606	1,565	14,171
Assets	206.3	46.2	252.5	290.9	543.4	61.8	605.2
Unallocated assets							32.6
Total assets							637.8
Liabilities	(201.1)	(43.5)	(244.6)	(121.7)	(366.3)	(62.3)	(428.6)
Unallocated liabilities							(222.4)
Total liabilities							(651.0)
Capital expenditure	15.3	5.0	20.3	20.9	41.2	5.4	46.6
Depreciation	20.9	3.1	24.0	17.2	41.2	5.1	46.3

Unallocated assets and liabilities include balances relating to cash, borrowings and taxation.

3. Segmental information continued

The following tables present revenue and certain asset information regarding the Group's geographic segments for the periods ended 26 April 2008 and 28 April 2007.

	52 weeks ended 26 April 2008				
	United Kingdom £m	**Rest of Europe £m**	**Asia £m**	**Canada £m**	**Total £m**
Segment revenue	**1,564.2**	**79.1**	**91.0**	**201.8**	**1,936.1**
Assets	**452.5**	**19.0**	**8.3**	**39.9**	**519.7**
Unallocated assets					**25.8**
Total assets					**545.5**
Capital expenditure	**31.7**	**0.7**	**1.4**	**3.0**	**36.8**

	52 weeks ended 28 April 2007				
	United Kingdom £m	Rest of Europe £m	Asia £m	Canada £m	Total £m
Segment revenue	1,400.0	69.7	237.6	187.2	1,894.5
Assets	454.5	42.7	73.1	34.9	605.2
Unallocated assets					32.6
Total assets					637.8
Capital expenditure	35.9	0.3	6.5	3.9	46.6

4. Revenue

Revenue disclosed in the consolidated income statement is analysed as follows:

	2008 £m	2007 (Restated) £m
Sale of goods – continuing operations	**1,874.9**	1,684.8
Sale of goods – discontinued operation	**61.2**	209.7
Sale of goods	**1,936.1**	1,894.5
Sublease rental income (Note 5)	**3.1**	3.7
Financial income (Note 10)	**1.6**	2.9
Total revenue	**1,940.8**	1,901.1

5. Operating profit

	2008 £m	2007 £m
Total operating profit is stated after charging (crediting):		
Depreciation of property, plant and equipment	**41.9**	46.3
Cost of inventories recognised as expense	**1,267.8**	1,239.3
Write down of inventories	**4.7**	4.0
Operating lease rentals		
– Minimum rentals	**148.3**	150.7
– Contingent rentals	**5.9**	7.0
– Sublease rentals	**(3.1)**	(3.7)
Net operating lease rentals	**151.1**	154.0

The Group leases stores under non-cancellable operating lease agreements that are generally subject to periodic rent review. These agreements provide for either or both minimum rentals and percentage rentals based on sales performance.

6. Fees to auditors

	2008 £m	2007 £m
Audit of the financial statements	**0.2**	0.2
Other fees to auditors:		
Local statutory audits for subsidiaries	**0.2**	0.3
Tax services	**0.2**	0.1
Services relating to corporate finance transactions	**0.1**	0.1
	0.7	0.7

7. Exceptional items

	2008 £m	2007 £m
Continuing operations		
Recognised in arriving at operating profit:		
Acquisition of Ottakar's:		
Store closure costs	**(4.6)**	(2.9)
Costs of integration	**–**	(10.2)
Impairment of property, plant and equipment	**–**	(7.0)
Restructuring costs	**–**	(4.6)
	(4.6)	(24.7)
Recognised within finance costs:		
Financing costs	**–**	(1.8)
Total exceptional items – continuing operations	**(4.6)**	(26.5)
Discontinued operation		
Gain on disposal of HMV Japan	**52.7**	–
Total exceptional items	**48.1**	(26.5)

7. Exceptional items continued

Exceptional costs of £4.6m have been incurred in the period, in connection with the continuing review of the combined Waterstone's store portfolio, following the acquisition of Ottakar's. These have been included within cost of sales. A tax credit of £1.1m arose in respect of these costs.

During the period the Group disposed of its HMV Japan business, giving rise to a profit on disposal after costs of £52.7m and a tax charge of £0.9m. See Note 12 for further details.

During the previous financial year the Group incurred exceptional operating costs of £26.5m. Costs of integrating the Ottakar's acquisition of £10.2m were included within administrative expenses, with related store closure costs of £2.9m included within cost of sales. Impairment charges of £7.0m relating to property, plant and equipment in HMV UK and Waterstone's were included within cost of sales (see Note 15) and £4.6m of costs to restructure the Group were included within administrative expenses. Exceptional financing costs of £1.8m related to amendments to the Group's existing Senior Bank Facility (see Note 10). A tax credit of £7.5m arose in respect of exceptional costs.

8. Directors' emoluments

	2008 £m	2007 £m
Directors' emoluments	**2.7**	1.7
Compensation for loss of office	**–**	0.3
Aggregate gains made by Directors on the exercise of share options	**–**	–
Amounts receivable under long-term incentive plans	**–**	0.2
Number of Directors accruing benefits under defined benefit pension schemes	**3**	4

Full details of Directors' remuneration and interests are set out in the Remuneration Report on pages 22 to 31.

9. Employee costs

	2008 £m	2007 £m
Employee costs, including Executive Directors' emoluments:		
Wages and salaries	**211.0**	207.2
Social security costs	**16.3**	16.6
Other pension costs (see Note 34)	**5.3**	5.9
	232.6	229.7

Included in wages and salaries is a total charge for equity-settled share-based payments of £2.6m (2007: credit of £0.3m). A credit arose in the prior period as performance conditions for awards vesting had not been met and management had revised their estimate of the achievability of performance conditions relating to awards vesting in future periods. In addition, wages and salaries includes a charge of £0.4m (2007: £0.6m) for the Share Incentive Plan (see Note 30).

The average monthly number of employees during the period is disclosed in Note 3.

10. Net finance costs

	2008 £m	2007 (Restated) £m
Finance income		
Bank interest receivable	**1.6**	2.7
Other finance income – pensions (see Note 34)	**–**	0.2
Total finance income	**1.6**	2.9
Finance costs		
Bank loans and overdrafts	**10.9**	11.4
Amortisation of deferred financing fees	**0.2**	0.3
Other finance expense – pensions (see Note 34)	**0.1**	–
	11.2	11.7
Exceptional financing costs	**–**	1.8
Total finance costs	**11.2**	13.5
Net finance costs	**9.6**	10.6

Included within the total net finance costs are net non-cash charges totalling £0.3m (2007: £0.1m). These include the amortisation of deferred financing fees and other finance costs relating to pensions.

In addition to the above, a net finance charge of £0.2m (2007: £0.4m) was included in the result of the discontinued operation (see Note 12).

Exceptional financing costs of £1.8m in the prior period related to amendments to the Group's existing Senior Bank Facility.

11. Taxation

Group	2008 £m	2007 £m
Taxation recognised in the income statement:		
United Kingdom, current year:		
Corporation tax – continuing operations	**13.8**	4.9
Corporation tax – discontinued operation	**0.9**	–
Over provision in prior periods	**(3.3)**	(1.4)
	11.4	3.5
Overseas tax, current year:		
Corporation tax – continuing operations	**2.5**	4.1
Corporation tax – discontinued operation	**–**	0.1
Under provision in prior periods	**0.4**	0.4
Total current tax	**14.3**	8.1
Deferred tax:		
United Kingdom	**1.4**	(1.2)
Overseas – continuing operations	**(0.1)**	(2.3)
Overseas – discontinued operation	**–**	0.9
Total deferred tax	**1.3**	(2.6)
Total taxation expense in the income statement	**15.6**	5.5

11. Taxation continued

The tax expense in the income statement is disclosed as follows:

	2008 £m	2007 £m
Income tax expense on continuing operations	**14.7**	4.5
Income tax expense on discontinued operations	**0.9**	1.0
Total taxation expense in the income statement	**15.6**	5.5

The effective tax rate on continuing operations before exceptional items is 28% (2007: 27%). The tax expense in the current year includes a credit of £1.1m (2007: £7.5m) in relation to the exceptional items from continuing operations of £4.6m (2007: £26.5m) and a charge of £0.9m in relation to the profit on disposal of HMV Japan, details of which can be found in Note 7.

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2008 £m	2007 £m
Profit from continuing operations before tax	**52.0**	18.7
(Loss) profit from discontinued operation before tax	**(0.1)**	2.9
Gain on disposal of discontinued operation	**52.7**	–
Profit before taxation	**104.6**	21.6
Corporation tax at UK average statutory rate of 29.83% (2007: 30%)	**31.2**	6.5
Effects of:		
Income not taxable/permanent disallowables	**1.5**	0.4
Overseas income taxed at different rates	**(1.1)**	(0.2)
Permanent disallowables on exceptional items – continuing operations	**0.3**	0.6
Permanent disallowables on exceptional items – discontinued operation	**(14.9)**	–
Temporary differences relating to businesses that have ceased trading	**–**	(0.1)
Net prior period over provision	**(2.9)**	(1.0)
Temporary differences relating to prior periods	**0.4**	(0.7)
Deferred tax rate change	**1.1**	–
Total tax charge	**15.6**	5.5

Key factors affecting the tax charge are:

(i) The tax charge is decreased by non-taxable income on the disposal of overseas operations in Japan.

(ii) The tax charge is reduced by the release of prior year provisions relating to UK tax returns.

(iii) The tax charge is increased by non-deductible expenses including non-qualifying depreciation.

Deferred tax

Tax relating to items charged or credited directly to equity in the Group is as follows:

	2008 £m	2007 £m
Deferred tax relating to defined benefit pension schemes	**2.6**	0.8
Current taxation relating to defined benefit pension schemes	**–**	(0.8)
Deferred taxation relating to share-based payments	**(0.3)**	(0.1)
Current taxation on forward foreign exchange contracts	**(0.1)**	–
Tax charge (credit) in the statement of recognised income and expense	**2.2**	(0.1)

11. Taxation continued

The deferred tax included in the Group balance sheet is as follows:

	2008 £m	2007 £m
Deferred tax liability		
Other temporary differences	**(0.1)**	(0.1)
	(0.1)	(0.1)
Deferred tax asset		
Accelerated depreciation for tax purposes	**13.6**	15.6
Tax losses carried forward	**–**	3.8
Other temporary differences	**1.0**	3.5
Defined benefit pension scheme obligations	**4.5**	6.6
Share-based payments	**1.5**	0.6
	20.6	30.1

The deferred tax asset on the balance sheet is largely in respect of UK and Canadian temporary differences. The deferred tax asset as at 28 April 2007 included £6.2m in respect of HMV Japan.

Unrecognised tax losses There are no capital losses available for offset against the Group's future capital gains. The brought forward capital losses (2007: £1.7m tax value) were all utilised on the disposal of the Japanese operations. A deferred tax asset was not recognised in respect of these losses in the previous year.

Deferred tax in the income statement The deferred tax included in the Group income statement is as follows:

	2008 £m	2007 £m
Accelerated depreciation for tax purposes	**(0.5)**	(3.0)
Tax losses	**1.9**	(1.5)
Other	**1.0**	1.8
Share-based payments	**(0.7)**	0.1
Defined benefit pension scheme obligations	**(0.4)**	–
	1.3	(2.6)

Company

Tax relating to items charged or credited directly to equity in the Company is as follows:

	2008 £m	2007 £m
Deferred tax relating to defined benefit pension schemes	**2.6**	0.8
Current taxation relating to defined benefit pension schemes	**–**	(0.8)
Deferred taxation relating to share-based payments	**(0.3)**	–
Tax charge in the statement of recognised income and expense	**2.3**	–

11. Taxation continued

The deferred tax included in the balance sheet of the Company is as follows:

	2008 £m	2007 £m
Deferred tax asset		
Other temporary differences	**0.9**	1.1
Defined benefit pension scheme obligations	**4.5**	6.6
Share-based payments	**0.8**	0.4
	6.2	8.1

12. Discontinued operation

On 25 August 2007 the Group announced the completion of the sale of its HMV Japan business for Yen17bn (£70.6m) on a debt and cash free basis. Its results for the prior period and the current period to the date of disposal are presented in this Annual Report as a discontinued operation.

Profit and cash flows for the period from the discontinued operation are as follows:

	2008 £m	2007 £m
Revenue	**61.2**	209.7
Cost of sales	**(58.4)**	(193.8)
Gross profit	**2.8**	15.9
Administrative expenses	**(2.7)**	(12.6)
Operating profit	**0.1**	3.3
Finance costs	**(0.2)**	(0.4)
(Loss) profit before tax from a discontinued operation	**(0.1)**	2.9
Exceptional gain on disposal of a discontinued operation	**52.7**	–
Tax expense	**(0.9)**	(1.0)
Profit after tax for the period from discontinued operation	**51.7**	1.9

The tax expense is analysed as follows:

On profit on ordinary activities	**–**	(1.0)
On the gain on disposal	**(0.9)**	–
	(0.9)	(1.0)

The exceptional gain on disposal is calculated as follows:

	2008 £m
Net cash consideration received	**52.4**
Net liabilities disposed of	**0.2**
Foreign exchange recycled from the translation reserve	**0.1**
	52.7

12. Discontinued operation continued

Cash flows for discontinued operation are as follows:

	2008 £m	2007 £m
Operating cash flows	**0.6**	8.9
Investing cash flows	**(0.8)**	(5.4)
Financing cash flows	**(0.2)**	(4.2)
Net cash flows excluding disposal proceeds	**(0.4)**	(0.7)

Cash inflow on sale:

	2008 £m
Gross consideration received	**70.6**
Cash disposed of with the business	**8.2**
Debt disposed of with the business	**(21.7)**
	57.1
Transaction costs incurred	**(4.7)**
Net cash consideration received	**52.4**

Net liabilities sold comprise the following assets and liabilities:

	Total £m
Property, plant and equipment	**13.5**
Stock	**21.5**
Trade and other receivables	**15.4**
Taxation	**6.3**
Cash	**8.2**
	64.9
Trade and other payables	**(43.4)**
Debt	**(21.7)**
	(65.1)
Total net liabilities sold	**(0.2)**

13. Earnings per share

The following reflects the income and share numbers data used in the basic and diluted earnings per share calculations:

	2008 £m	2007 £m
Profit attributable to shareholders	**89.0**	16.1
Discontinued operation trading after tax	**0.1**	(1.9)
Profit on disposal of discontinued operation after tax	**(51.8)**	–
Profit from continuing operations	**37.3**	14.2
Exceptional items, less tax thereon (see Note 7)	**3.5**	19.0
Adjusted profit from continuing operations	**40.8**	33.2

13. Earnings per share continued

	2008 Number Million	2007 Number Million
Weighted average number of Ordinary Shares – Basic	**402.0**	401.4
Dilutive share options	**1.7**	2.4
Weighted average number of Ordinary Shares – Diluted	**403.7**	403.8

Earnings per Ordinary Share is calculated as follows:

	2008 Pence	2007 Pence
Total operations		
Basic	**22.1**	4.0
Adjusted	**10.1**	8.7
Basic diluted	**22.0**	4.0
Adjusted diluted	**10.0**	8.7
Continuing operations		
Basic	**9.2**	3.5
Adjusted	**10.1**	8.2
Basic diluted	**9.2**	3.5
Adjusted diluted	**10.1**	8.2
Discontinued operation		
Basic	**12.9**	0.5
Basic diluted	**12.8**	0.5

The adjusted earnings per Ordinary Share is shown in order to highlight the underlying performance of the Group.

Earnings per share for the discontinued operation is derived from the profit attributable to shareholders of the parent from discontinued operations of £51.7m (2007: £1.9m), divided by the weighted average number of Ordinary Shares for both basic and diluted amounts as per the table above.

The weighted average number of shares excludes shares held by an Employee Benefit Trust and has been adjusted for the issue of shares during the period. The diluted earnings per share calculations reflect the weighted average dilutive effect of options outstanding during the year of 1.7m (2007: 2.4m). At the year end 5.1m anti-dilutive share options were in issue (2007: 12.3m).

14. Dividends paid and proposed

	2008 £m	2007 £m
Ordinary final dividend of 5.6p per share for 2007 (2006: 5.6p)	**22.5**	22.5
Ordinary interim dividend of 1.8p per share for 2008 (2007: 1.8p)	**7.3**	7.2
	29.8	29.7

The Directors have proposed a final dividend of 5.6p per share (2007: 5.6p), which, in line with the requirements of IAS 10 Events after the Balance Sheet Date, has not been recognised within these results. This results in a full year dividend for 2008 of 7.4p (2007: 7.4p).

The proposed final dividend for 2008 of £22.6m (2007: £22.5m), subject to approval by shareholders at the Annual General Meeting, will be paid on 10 October 2008 to shareholders on the Register at the close of business on 29 August 2008. Shares will be quoted ex-dividend from 27 August 2008.

15. Property, plant and equipment

Group	Leasehold improvements £m	Plant, equipment and vehicles £m	Total £m
Cost at 29 April 2006	11.9	389.2	401.1
Currency retranslation	(0.7)	(11.1)	(11.8)
Disposals	–	(14.9)	(14.9)
Acquisition of subsidiary	–	21.5	21.5
Additions	0.6	46.0	46.6
Cost at 28 April 2007	11.8	430.7	442.5
Currency retranslation	–	8.2	8.2
Disposals	–	(10.7)	(10.7)
Additions	0.4	36.4	36.8
Disposal of business	–	(46.6)	(46.6)
Cost at 26 April 2008	**12.2**	**418.0**	**430.2**
Depreciation at 29 April 2006	5.7	233.5	239.2
Currency retranslation	(0.7)	(7.9)	(8.6)
Charge for period	0.9	45.4	46.3
Impairment loss	–	7.0	7.0
Disposals	–	(10.6)	(10.6)
Depreciation at 28 April 2007	5.9	267.4	273.3
Currency retranslation	–	6.0	6.0
Charge for period	0.6	41.3	41.9
Disposals	–	(7.3)	(7.3)
Disposal of business	–	(33.1)	(33.1)
Depreciation at 26 April 2008	**6.5**	**274.3**	**280.8**
Net book value at 26 April 2008	**5.7**	**143.7**	**149.4**
Net book value at 28 April 2007	5.9	163.3	169.2
Net book value at 29 April 2006	6.2	155.7	161.9

At 28 April 2007, the Group's property, plant and equipment had been written down by £7.0m following an impairment review of the carrying value of certain retail assets based on prevailing market trading conditions. The recoverable amounts of assets were determined from value in use calculations that incorporated five-year cash flow estimates discounted at an appropriate pre-tax discount rate of 10%. The cash flows reflected management's best estimates of revenue, margin and operating costs over the forecast period. There were no impairment charges during the current period under review.

The carrying value of plant and equipment held under finance leases at 26 April 2008 was £0.7m (2007: £1.1m), which is included within additions during the year ended 28 April 2007. Leased assets are pledged as security for the related finance lease.

15. Property, plant and equipment continued

Company	Leasehold improvements £m	Plant, equipment and vehicles £m	Total £m
Cost at 29 April 2006	–	2.8	2.8
Disposals	–	(0.1)	(0.1)
Additions	–	0.1	0.1
Cost at 28 April 2007	–	2.8	2.8
Disposals	–	(0.8)	(0.8)
Cost at 26 April 2008	**–**	**2.0**	**2.0**
Depreciation at 29 April 2006	–	2.3	2.3
Charge for period	–	0.2	0.2
Disposals	–	(0.1)	(0.1)
Depreciation at 28 April 2007	–	2.4	2.4
Charge for period	–	0.1	0.1
Disposals	–	(0.8)	(0.8)
Depreciation at 26 April 2008	**–**	**1.7**	**1.7**
Net book value at 26 April 2008	**–**	**0.3**	**0.3**
Net book value at 28 April 2007	–	0.4	0.4
Net book value at 29 April 2006	–	0.5	0.5

16. Intangible assets

Group	Trademarks £m	Goodwill £m	Total £m
Cost at 29 April 2006	2.0	–	2.0
Additions – acquisition of subsidiary	–	71.0	71.0
Cost at 28 April 2007	2.0	71.0	73.0
Additions	0.1	–	0.1
Cost at 26 April 2008	**2.1**	**71.0**	**73.1**
Amortisation at 26 April 2008, 28 April 2007 and 29 April 2006	**–**	**–**	**–**
Net book value at 26 April 2008	**2.1**	**71.0**	**73.1**
Net book value at 28 April 2007	2.0	71.0	73.0
Net book value at 29 April 2006	2.0	–	2.0

Intangible assets include the various trademark registrations and applications for the acronym 'HMV' and the dog and trumpet trademark. They are considered to have an indefinite life as they can be renewed at minimal costs and therefore no amortisation has been charged. Non-amortisation is supported by an annual impairment review.

During the year various trademarks and domain names pertaining to the Fopp brand were purchased for £0.1m. These are considered to have a useful life of 10 years and amortisation is being charged over this period.

Goodwill of £71.0m arising on the purchase of Ottakar's plc on 3 July 2006 has been capitalised. The carrying value of the goodwill is subject to an annual impairment review so as to ensure that the carrying amount is not greater than the recoverable amount. The recoverable amount is determined from a value in use calculation with regard to the portfolio of stores acquired. The value in use incorporates cash flow projections based on budgets approved by senior management over a five year period. The calculation of value in use is sensitive to assumptions made with respect to sales forecasts, gross margin and discount rates. Cash flows beyond the five years have been extrapolated using a 1% growth rate (2007: 1%). This rate does not exceed the average long-term growth rate for the relevant market. The pre-tax discount rate applied to cash flow projections is 10% (2007: 10%). On the basis of the impairment review undertaken, no impairment of the capitalised goodwill was required.

The Company had no intangible assets.

17. Investments: subsidiaries

Company	Cost £m	Provision £m	Net book value £m
At 29 April 2006 as previously reported	793.4	(130.0)	663.4
Prior year adjustment (see Note 31)	1.1	–	1.1
At 29 April 2006 restated	794.5	(130.0)	664.5
Capital contribution relating to share-based payments (see Note 31)	(0.3)	–	(0.3)
At 28 April 2007	794.2	(130.0)	664.2
Impairment charge	–	(6.9)	(6.9)
Capital contribution relating to share-based payments (see Note 31)	1.8	–	1.8
Disposal	(1.4)	–	(1.4)
At 26 April 2008	**794.6**	**(136.9)**	**657.7**

On 25 August 2007 the Group disposed of its HMV Japan business. This comprised the Company's investment in HMV Japan KK, various trademarks and a Group subsidiary company, HMV Retail Ltd, which included the HMV Japan branch. Details of the disposal are disclosed in Note 12.

An impairment charge was made during the year against various Group subsidiaries.

Subsidiary undertakings

The following information relates to those subsidiaries whose results or financial position, in the opinion of the Directors, principally affect the figures of the Group. All subsidiaries are 100% owned.

Name of undertaking	Country of incorporation
HMV Music Limited	England and Wales
HMV (IP) Limited	England and Wales
HMV USA LP[1]	USA
HMV Canada Inc	Canada
HMV Hong Kong Limited	Hong Kong
HMV Singapore Pte Limited	Singapore
HMV Ireland Limited[1]	Ireland
Ottakar's Limited[1]	England and Wales
Rustico Holdings Limited	Ireland
Waterstone's Booksellers Limited	England and Wales
Waterstone's Booksellers Amsterdam BV	Netherlands
Waterstone's Booksellers Belgium SA	Belgium
Waterstone's Booksellers Ireland Limited[1]	Ireland
Waterstone's Academic Bookstores Limited[1]	England and Wales
HMV Guernsey Limited	Guernsey

1. Not directly held by the Company.

All subsidiaries listed above are included in the consolidation. The principal activity of all subsidiaries in the HMV Group is the retailing of music, DVD and electronic games or books.

On 26 April 2008 the trade and assets of Ottakar's Limited and the trade and assets of the former Dillons stores, which were included within HMV Music Limited, were transferred to Waterstone's Booksellers Limited as part of an internal reorganisation.

18. Trade and other receivables

	Group 2008 £m	Group 2007 £m	**Company 2008 £m**	Company 2007 £m
Non-current				
Other receivables	**0.9**	7.4	**–**	–
	0.9	7.4	**–**	–
Current				
Trade receivables	**8.2**	12.2	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**28.3**	52.6
Other receivables	**9.5**	12.7	**–**	–
Prepayments and accrued income	**41.2**	44.3	**0.1**	0.1
	58.9	69.2	**28.4**	52.7

The carrying value of trade and other receivables approximates to fair value.

Group trade receivables are stated net of a provision for impairment of £1.2m (2007: £1.0m). Credit risk is limited as the Group has minimal levels of trade receivables due to the nature of its retailing business. See Note 27 for further discussion of credit risk.

The Company has no trade receivables and no provisions for impairment of any financial assets.

19. Inventories

Inventories primarily comprise finished goods and goods for resale. The replacement cost of inventories is considered to be not materially different from the balance sheet value.

20. Other financial assets

Neither the Group nor the Company held any available-for-sale financial assets at 26 April 2008 (2007: £nil).

During the period ended 28 April 2007, the reversal of a temporary loss in value of £2.9m on 2,190,619 Ordinary Shares of Ottakar's plc was recognised within equity, on completion of the acquisition of the company.

21. Acquisition of subsidiary

During the period under review, the Group acquired the leases of seven stores from the administrator of Fopp, together with various trademarks and domain names. Consideration of £0.4m was paid for the assets acquired and the book value is considered to be equal to the fair value.

On 3 July 2006 the Group acquired for cash the share capital of Ottakar's plc. Ottakar's was a chain of book stores which operated from 141 stores in the UK at the date of acquisition.

The book value and fair value of the net assets acquired were as follows:

	Book value £m	Fair value £m
Property, plant and equipment	30.4	21.5
Inventories	27.6	24.0
Trade and other receivables	8.0	7.8
Trade and other payables	(21.8)	(24.9)
Taxation	(0.6)	2.6
Net debt	(31.8)	(31.8)
	11.8	(0.8)
Goodwill arising on acquisition		71.0
Consideration (satisfied by cash)		70.2

Of the £70.2m consideration, £11.8m was paid in the 52 weeks ended 29 April 2006 when the Group acquired for cash approximately 10% of the share capital for 440p per share. The remaining 90% of share capital was purchased at 285p per share. As a result of the acquisition goodwill of £71.0m was capitalised (see Note 16).

From the date of acquisition to 28 April 2007, Ottakar's contributed £138.8m of revenue and made a profit before tax and exceptional items of £6.0m. In addition, exceptional costs of £10.2m relating to the integration and £2.9m relating to store closures were charged in the prior year (see Note 7). If the acquisition had taken place at the beginning of the prior year, revenue for the Group would have been £1,916.0m and profit before exceptional items would have been £44.7m.

The fair value of tax assets acquired includes deferred tax arising in the period ended 28 April 2007 from the last balance sheet date before acquisition (28 January 2006) to 3 July 2006 of £1.9m and deferred tax arising on other fair value adjustments of £1.3m.

Included in the £71.0m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the expected value of synergies and an assembled workforce.

22. Cash and short-term deposits

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Cash at bank and in hand	**35.0**	77.5	**4.1**	–
Short-term deposits	**0.5**	0.4	**–**	–
	35.5	77.9	**4.1**	–

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Cash balances are deposited with counter parties that have a strong credit rating, with an agreed limit for each counter party, so as to limit the risk of loss arising from a failure. Counter parties include AAA-rated liquidity funds, as well as banks.

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Cash at bank and in hand	**35.0**	77.5	**4.1**	–
Short-term deposits	**0.5**	0.4	**–**	–
Bank overdrafts	**–**	(4.0)	**(88.9)**	(7.3)
	35.5	73.9	**(84.8)**	(7.3)

23. Trade and other payables

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Current				
Trade payables	**237.2**	239.4	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**111.4**	81.9
Other payables	**89.4**	88.8	**7.1**	7.6
Accruals and deferred income	**82.9**	68.9	**2.5**	1.5
	409.5	397.1	**121.0**	91.0

The carrying value of trade and other payables approximates to fair value.

24. Interest-bearing loans and borrowings

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Finance leases – non-current	**0.5**	0.8	**–**	–
Finance leases – current	**0.2**	0.3	**–**	–
Current borrowings	**34.8**	203.0	**34.8**	176.6
Bank overdrafts	**–**	4.0	**88.9**	7.3
Loans and borrowings	**35.5**	208.1	**123.7**	183.9

Current borrowings fall due within one year of the balance sheet date. They reflect amounts drawn down from the Group's multi-currency revolving credit facility (see Note 27) and the short-term element of finance leases. Bank overdrafts are repayable on demand. Non-current finance leases fall due in two to five years from the balance sheet date.

24. Interest-bearing loans and borrowings continued

Interest-bearing loans and borrowings analysed by currency are as follows:

	Group 2008 £m	Group 2007 £m	**Company 2008 £m**	Company 2007 £m
Sterling – revolving credit facility	**35.0**	97.0	**35.0**	97.0
– term loan	**–**	80.0	**–**	80.0
– overdraft	**–**	4.0	**88.9**	7.3
– finance leases	**0.7**	1.1	**–**	–
– short-term borrowings	**–**	–	**–**	–
Japanese Yen – short-term borrowings	**–**	21.9	**–**	–
Canadian Dollars – short-term borrowings	**–**	4.5	**–**	–
Deferred financing fees	**(0.2)**	(0.4)	**(0.2)**	(0.4)
Loans and borrowings	**35.5**	208.1	**123.7**	183.9

All loans and borrowings of the Group and Company as at 26 April 2008 bear interest at variable rates. The rates are set in advance for periods ranging from overnight to six months by reference to a relevant benchmark rate.

25. Provisions

Group	Total £m
At 28 April 2007:	
Current	7.8
Non-current	0.5
	8.3
Provisions utilised	(9.2)
Charged during the year	4.6
At 26 April 2008	**3.7**
Analysed as:	
Current	**3.5**
Non-current	**0.2**
	3.7

Provisions almost entirely consist of amounts in respect of store closures and restructuring. The utilisation of provisions in the current year largely reflects store closures and the rental costs, net of sublet income, of previously closed stores. The £4.6m provision created in the year was in respect of store closures in the enlarged Waterstone's estate. The remaining provisions are expected to be utilised in the next two years.

The Company did not have any provisions at either 26 April 2008 or 28 April 2007.

26. Derivatives and financial instruments

Currency derivatives

The Group uses derivative instruments in order to manage foreign currency exchange risk arising on expected future purchases of internationally sourced products in the Group's subsidiaries. In all cases the implementation of these derivative instruments has been negotiated to match expected purchases and they therefore qualify for hedge accounting. The fair value of cash flow hedges in place at 26 April 2008 is £(0.4)m (2007: £nil), which has been recognised in the hedging reserve.

Interest rate hedging

Based on its current debt levels, the Group moves to a net cash position during its third quarter and therefore interest rate exposure is limited. Consequently, no interest rate hedging instruments have been utilised. Interest rate exposures continue to be monitored in accordance with the Group's treasury policies.

Hedge of net investments in foreign entities

The Group has Canadian dollar denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in Canada. At 26 April 2008 the carrying amount of the borrowings was £nil (2007: £4.5m).

Fair values

The fair values of each category of the Group's financial instruments and their carrying values in the Group's balance sheet, excluding trade and other receivables and trade and other payables, are as follows:

	26 April 2008		28 April 2007	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets				
Cash and short-term deposits	**35.5**	**35.5**	77.9	77.9
Financial liabilities				
Short-term borrowings	**(34.8)**	**(34.8)**	(203.0)	(203.0)
Foreign exchange forward contracts	**(0.4)**	**(0.4)**	–	–
Bank overdrafts	**–**	**–**	(4.0)	(4.0)
Finance leases	**(0.7)**	**(0.7)**	(1.1)	(1.1)

The fair values of each category of the Company's financial instruments and their carrying values in the Company's balance sheet, excluding trade and other receivables and trade and other payables, are as follows:

	26 April 2008		28 April 2007	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets				
Other financial assets – current	**–**	**–**	–	–
Financial liabilities				
Short-term borrowings	**(34.8)**	**(34.8)**	(176.6)	(176.6)
Bank overdrafts	**(88.9)**	**(88.9)**	(7.3)	(7.3)

The fair value of cash and short-term deposits and borrowings is based on the carrying amount as a result of their short maturity.

For both the Group and the Company the carrying value of trade receivables, other receivables, trade payables and other payables equates to the fair value.

26. Derivatives and financial instruments continued

The total notional amount of outstanding foreign currency contracts to which the Group and Company were committed at the balance sheet date is as follows:

	Group 2008 £m	Group 2007 £m	**Company 2008 £m**	Company 2007 £m
Commercial activities:				
Euro	**8.2**	0.6	**7.2**	0.6
Japanese Yen	**–**	0.1	**–**	–
US Dollar	**0.9**	0.3	**0.9**	–
	9.1	1.0	**8.1**	0.6

27. Financial risk factors

The Group's business exposes it to certain limited financial risks, such as liquidity risk, interest rate risk, credit risk and foreign exchange risk. The Group's Treasury department is principally responsible for managing these risks using policies approved by the Board.

Liquidity risk

The Group has sufficient funds and facilities available to satisfy its current requirements.

The Company has a Senior Bank Facility, consisting of a multi-currency £260.0m revolving credit facility. During the period £80.0m of term debt was repaid earlier than scheduled and the term debt facility was cancelled. The Group also has some locally arranged bank facilities.

	Total available at	
	26 April 2008 £m	28 April 2007 £m
Multi-currency revolving credit facility	**260.0**	260.0
Term loan facility	**–**	80.0
Local facilities	**2.5**	6.3
Total	**262.5**	346.3

Fees totalling £0.7m relating to the arrangement of the £260.0m revolving credit facility were deferred and are being amortised over the five year term of the facility to 31 March 2010.

From 30 March 2007 until 27 June 2007 interest on the facility was payable at a rate equal to LIBOR plus a margin of 0.875% plus a 0.05% utilisation fee. From 28 June 2007 the margin was 1.75%, with the utilisation fee no longer applicable.

Of the £260.0m revolving credit facility, £35.0m (2007: £97.0m) had been drawndown at 26 April 2008. Analysis of the availability of undrawn committed facilities available to the Group is shown below.

	2008 £m	2007 £m
Expiring within one year	**32.5**	4.5
Expiring in more than one year but not more than two years	**195.0**	–
Expiring between two and five years	**–**	158.5
Total	**227.5**	163.0

The £260.0m revolving credit facility fully expires on 31 March 2010. Prior to this, £30m of the facility expires on 31 December 2008, £15.0m on 30 June 2009 and £30.0m on 31 December 2009.

In addition to direct drawings under the revolving credit facility in the UK, the Group has utilised the facility by drawing letters of credit to support facilities provided by local banks overseas. Although these locally provided facilities nominally expire in less than one year, they could be renewed provided that the letter of credit drawn under the revolving credit facility is renewed. The table above reflects the undrawn portion of these locally provided facilities as expiring in less than one year. As at 26 April 2008, letters of credit issued totalled £nil (2007: £4.5m) of which £nil was undrawn (2007: £4.5m). The Company also gave a parent guarantee to support uncommitted local facilities totalling £nil (2007: £6.3m), of which £nil was undrawn at 26 April 2008 (2007: £6.3m).

27. Financial risk factors continued

Security
The borrowings under the Facility Agreement are secured by the Guarantors that comprise HMV Group plc and any wholly-owned subsidiaries of the Company who accede to the Facility Agreement as guarantors. As a condition of the Agreement, the aggregate gross assets, revenue and earnings before interest and tax of the Guarantors must comprise not less than 70% of the total gross assets, revenue and earnings before tax and interest of the Company and its subsidiaries. The Guarantors currently comprise HMV Group plc, HMV Music Limited, Waterstone's Booksellers Limited, HMV (IP) Limited, HMV UK Limited, HMV Ireland Limited, Waterstone's Booksellers Ireland Limited and HMV Guernsey Limited. The Company has granted security comprising first-ranking, fixed and floating charges over all the assets and undertakings of the Guarantors.

Under their banking arrangements, overdraft and cash balances of the Company and of certain subsidiaries are pooled or offset and cross-guaranteed. Such pooling and offset arrangements are reflected in the Group balance sheet as appropriate.

Interest rate risk
The Group is exposed to interest rate risk from its borrowings and cash deposits. However, without core longer-term borrowings (as is currently the position) the strong seasonality to its trading patterns provides that, with the onset of peak trading in December, the Group moves into a net cash position for around three months before reverting to a net debt position until the following December. As both debt and cash deposits attract a floating rate of interest, this seasonality provides a natural hedge against interest rate risk. The net exposure is monitored on a regular basis, with consideration given to the supplemental use of interest rate hedging instruments.

Credit risk
The Group's credit risk arises from its cash and cash equivalents, deposits, and outstanding receivables.

The Group deposits cash balances with counter parties that have a strong credit rating, with an agreed limit for each counter party, so as to limit the risk of loss arising from a failure. Counter parties include AAA-rated liquidity funds, as well as banks.

Trade and other receivables are regularly monitored and are limited in size due to the nature of the Group's business as a retailer dealing predominantly in cash and cash equivalents. Allowances are made for doubtful debts based on the age of the debt and the customer's financial circumstances.

Foreign exchange risk
The Group is exposed to foreign exchange risk from its investing, financing and operating activities.

Forward foreign exchange contracts are used to hedge the foreign exchange risk of imports where volumes are significant. However, the Group's operating businesses generally source the majority of their products from suppliers within their country of operation and so the foreign exchange exposure is limited. No speculative positions are entered into by the Group. Details of foreign currency contracts outstanding at the balance sheet date are given in Note 26.

The Group is also exposed to foreign currency translation risk through its investment in overseas subsidiaries, which is partially hedged by local debt. Generally, the Group does not hedge any net translation exposure of overseas earnings, although it may in certain circumstances implement hedges to secure short-term financial objectives.

Sensitivity analysis
The following sensitivity analysis illustrates the sensitivity to changes in market variables of the Group's and Company's financial instruments and show the impact on profit and shareholders' equity.

Interest rate sensitivity
Based on the Group's net debt position at the year end, a 100 basis points movement in interest rates would affect the Group's profit before tax and shareholders' funds by approximately £0.2m (2007: £1.5m). The impact on the Company would have been £1.2m (2007: £1.8m).

27. Financial risk factors continued

Foreign exchange rate sensitivity

The Group maintains stores in Canada, Europe and Asia. Based on the performance of the overseas businesses in the year to April 2008, a 10% change in the value of local currencies against Sterling would affect the Group's profit before tax by £1.6m (2007: £2.0m) and the Group's equity by £4.1m (2007: £3.0m).

There would not have been any impact on the Company.

28. Additional cash flow information

Movements in the Group's net debt position are as follows:

	At 28 April 2007 £m	Cash flow £m	Other non-cash changes[1] £m	Exchange movements £m	**At 26 April 2008 £m**
Cash and short-term deposits	77.9	(48.7)	–	6.3	**35.5**
Bank overdrafts	(4.0)	4.0	–	–	**–**
Cash and cash equivalents	73.9	(44.7)	–	6.3	**35.5**
Loans and borrowings – non-current	(0.8)	0.3	–	–	**(0.5)**
Loans and borrowings – current	(203.3)	168.0	(0.2)	0.5	**(35.0)**
Total loans and borrowings	(204.1)	168.3	(0.2)	0.5	**(35.5)**
Net debt	(130.2)	123.6	(0.2)	6.8	**–**

	At 29 April 2006 £m	Cash flow £m	Net debt acquired £m	Other non-cash changes[1] £m	Exchange movements £m	At 28 April 2007 £m
Cash and short-term deposits	81.5	(0.3)	–	–	(3.3)	77.9
Bank overdrafts	(1.4)	(2.6)	–	–	–	(4.0)
Cash and cash equivalents	80.1	(2.9)	–	–	(3.3)	73.9
Loans and borrowings – non-current	–	(0.8)	–	–	–	(0.8)
Loans and borrowings – current	(95.2)	(79.8)	(31.8)	(0.1)	3.6	(203.3)
Total loans and borrowings	(95.2)	(80.6)	(31.8)	(0.1)	3.6	(204.1)
Net debt	(15.1)	(83.5)	(31.8)	(0.1)	0.3	(130.2)

1. Represents issue costs incurred in connection with the raising of debt. The issue costs have been offset against the relevant debt instrument.

28. Additional cash flow information continued

Movements in the Company's net debt position are as follows:

	At 28 April 2007 £m	Cash flow £m	Other non-cash changes[1] £m	Exchange movements £m	**At 26 April 2008 £m**
Cash and short-term deposits	–	4.1	–	–	**4.1**
Bank overdrafts	(7.3)	(81.6)	–	–	**(88.9)**
Cash and cash equivalents	(7.3)	(77.5)	–	–	**(84.8)**
Loans and borrowings – non-current	–	–	–	–	**–**
Loans and borrowings – current	(176.6)	142.0	(0.2)	–	**(34.8)**
Total loans and borrowings	(176.6)	142.0	(0.2)	–	**(34.8)**
Net debt	(183.9)	64.5	(0.2)	–	**(119.6)**

	At 29 April 2006 £m	Cash flow £m	Other non-cash changes[1] £m	Exchange movements £m	At 28 April 2007 £m
Cash and short-term deposits	5.7	(5.7)	–	–	–
Bank overdrafts	–	(7.3)	–	–	(7.3)
Cash and cash equivalents	5.7	(13.0)	–	–	(7.3)
Loans and borrowings – non-current	–	–	–	–	–
Loans and borrowings – current	(88.5)	(88.0)	(0.1)	–	(176.6)
Total loans and borrowings	(88.5)	(88.0)	(0.1)	–	(176.6)
Net debt	(82.8)	(101.0)	(0.1)	–	(183.9)

1. Represents issue costs incurred in connection with the raising of debt. The issue costs have been offset against the relevant debt instrument.

29. Share capital

Group and Company	**2008 Number**	2007 Number	**2008 £m**	2007 £m
Authorised				
Ordinary Shares of 1p each	**518,590,111**	518,590,111	**5.2**	5.2

Group and Company	Number	£m
Allotted, called up and fully paid Ordinary Shares of 1p each		
At 29 April 2006	402,668,425	4.0
Issued on exercise of share options	68,608	–
At 28 April 2007	402,737,033	4.0
Issued on exercise of share options	633,461	–
At 26 April 2008	**403,370,494**	**4.0**

During the period 633,461 (2007: 68,608) Ordinary Shares were issued in the Company to satisfy options exercised under the Company's share option schemes, for which consideration of £0.1m (2007: £0.1m) was received.

In the event of a winding-up of the Company or other return of capital, the assets available for distribution to shareholders would be applied in the following order after payment of all debts and liabilities:

(i) Repaying pari passu the amounts subscribed (1p per share) for the Ordinary Shares.

(ii) Distributing pari passu any balance among the holders of the Ordinary Shares.

30. Share-based payments

Equity-settled share option plan

The Company has a number of share option schemes under which options to subscribe for the Company's Ordinary Shares have been granted to certain Directors and management, details of which are given in the Directors' Remuneration Report on page 24. Options were granted at the five-day average of the market value of the Company's shares on the date of grant. The options can normally only be exercised after three years and are subject to the achievement of earnings per share targets imposed at the date of grant. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the option vests or before vested options are exercised.

The charge for share options in respect of employee services during the period ended 26 April 2008 was £nil (2007: credit of £1.0m). A credit arose in the prior period as performance conditions for awards vesting had not been met and management revised their estimate of the achievability of performance conditions relating to awards vesting in future periods.

The movements in the number of share options during the year are detailed in the table below. The options outstanding at 26 April 2008 had a weighted average exercise price of 203p (2007: 198p) and a weighted average remaining contractual life of 5.7 years (2007: 6.7 years). The weighted average share price at the date of exercise for share options exercised during the period was 122p (2007: 153p).

Group	**2008 Options Number**	**2008 Weighted average exercise price Pence**	2007 Options Number	2007 Weighted average exercise price Pence
Outstanding at beginning of period	**12,974,872**	**198**	21,208,529	186
Granted during the period	**–**	**–**	925,324	154
Exercised during the period	**(633,461)**	**19**	(68,608)	31
Lapsed during the period	**(7,119,577)**	**210**	(9,090,373)	167
Outstanding at end of the period[1]	**5,221,834**	**203**	12,974,872	198
Exercisable at end of the period	**2,501,384**	**161**	4,899,561	145

1. Included within this balance are options over 2,501,384 (2007: 4,899,561) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

Group	**2008 Options outstanding Number**	**2008 Weighted average remaining contractual life Years**	2007 Options outstanding Number	2007 Weighted average remaining contractual life Years
1998 Senior Executive Share Option Scheme				
Exercise price 18.73p	**96,078**	**3.4**	729,539	2.7
2002 Executive Share Option Scheme				
Exercise price 167p	**2,405,306**	**4.1**	4,170,022	5.1
Exercise price 237p	**–**	**–**	3,239,019	7.2
Exercise price 242p	**2,720,450**	**7.2**	3,910,968	8.2
Exercise price 154p	**–**	**–**	925,324	9.4
	5,221,834	**5.7**	12,974,872	6.7

30. Share-based payments continued

Company	2008 Options Number	2008 Weighted average exercise price Pence	2007 Options Number	2007 Weighted average exercise price Pence
Outstanding at beginning of period	**4,008,709**	**159**	5,262,055	164
Granted during the period	**–**	**–**	925,324	154
Exercised during the period	**(633,461)**	**19**	(30,198)	19
Lapsed during the period	**(2,268,250)**	**178**	(2,148,472)	169
Transfer from other Group companies	**178,756**	**235**	–	–
Outstanding at end of the period[1]	**1,285,754**	**207**	4,008,709	159
Exercisable at end of the period	**601,555**	**167**	2,038,474	121

1. Included within this balance are options over 601,555 (2007: 2,038,474) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

Company	2008 Options outstanding Number	2008 Weighted average remaining contractual life Years	2007 Options outstanding Number	2007 Weighted average remaining contractual life Years
1998 Senior Executive Share Option Scheme				
Exercise price 18.73p	**–**	**–**	633,461	2.7
2002 Executive Share Option Scheme				
Exercise price 167p	**601,555**	**4.1**	1,405,013	5.1
Exercise price 237p	**–**	**–**	511,432	7.2
Exercise price 242p	**684,199**	**7.2**	533,479	8.2
Exercise price 154p	**–**	**–**	925,324	9.4
	1,285,754	**5.7**	4,008,709	6.7

The 2002 Executive Share options with an exercise price of 242p would be exercisable from 8 July 2008 subject to vesting conditions based on the Group's financial performance for the three years to 26 April 2008. However, as the minimum performance conditions have not been met, these options will lapse in the 2008/09 financial year.

The fair value of equity-settled share options granted is estimated as at the date of grant using the Black Scholes model. There were no grants of share options during the period under review. The inputs into the Black Scholes model in the year ended 28 April 2007 were as follows:

Group and Company	2007
Dividend yield (%)	5.0
Expected volatility (%)	25.0
Expected life (years)	5.4
Risk-free interest rate (%)	4.5
Weighted average share price (p)	154
Weighted average exercise price (p)	154
Weighted average fair value (p)	26

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

30. Share-based payments continued

Equity-settled deferred annual bonus

As part of the HMV Group plc Incentive Plan for Senior Executives (HIPS), as discussed more fully in the Directors' remuneration report on page 23, the Company makes deferred awards to certain Directors and senior management. These awards are made in shares and the number of shares awarded is determined by reference to the market value of shares at the time the award is made, not when it is paid. No adjustment to value is made for expected dividend income during the vesting period. The deferred award normally vests following the third anniversary of the end of the financial year in which the award is made, subject to the achievement of certain profit related targets and the performance of the individual over the vesting period.

The charge in respect of deferred awards during the period ended 26 April 2008 was £0.2m (2007: £0.1m).

The number and weighted average grant prices of, and movements in, deferred share awards during the year are as follows:

Group	**2008 Share awards Number**	**2008 Weighted average grant price Pence**	2007 Share awards Number	2007 Weighted average grant price Pence
Outstanding at beginning of period	**1,052,872**	**207**	1,740,435	195
Granted during the period	**21,986**	**115**	465,050	165
Vested during the period	**(157,531)**	**226**	(260,502)	163
Forfeited during the period	**(196,974)**	**165**	(305,611)	237
Lapsed during the period	**(187,661)**	**237**	(586,500)	143
Outstanding at end of the period	**532,692**	**203**	1,052,872	207

Company	**2008 Share awards Number**	**2008 Weighted average grant price Pence**	2007 Share awards Number	2007 Weighted average grant price Pence
Outstanding at beginning of period	**368,777**	**232**	868,988	195
Vested during the period	**(42,580)**	**237**	(134,479)	168
Transfer from other Group companies	**–**	**–**	82,439	206
Lapsed during the period	**(148,997)**	**237**	(448,171)	176
Outstanding at end of the period	**177,200**	**226**	368,777	232

Of the outstanding balance, the assessment of performance conditions at 26 April 2008 will result in 143,904 (2007: 198,899) share awards lapsing after the period end (Company: 92,945, 2007: 143,683), whilst a further 133,593 (2007: 121,749) share awards will vest (Company: 46,796, 2007: 47,894). The vesting awards will be settled by shares held in an Employee Benefit Trust (see Note 32) and will be transferred to employees in July 2008.

30. Share-based payments continued

Equity-settled Performance Share Plan (PSP)

Under the PSP the Executive Directors and certain employees are granted an award of shares, which vest after three years provided that preset performance criteria, set by the Remuneration Committee, are met. The number of shares awarded is determined by reference to the market value of shares. The charge in respect of the PSP during the year ended 26 April 2008, which is adjusted for expected dividend income during the vesting period, was £2.4m (2007: £0.6m).

The number and weighted average grant prices of, and movements in, PSP awards during the year are as follows:

Group	**2008 Share awards Number**	**2008 Weighted average grant price Pence**	2007 Share awards Number	2007 Weighted average grant price Pence
Outstanding at beginning of period	**4,661,594**	**162**	–	–
Granted during the period	**7,821,277**	**115**	5,170,087	162
Exercised during the period	**(65,770)**	**162**	(1,104)	162
Lapsed during the period	**(1,055,093)**	**148**	(507,389)	162
Outstanding at end of the period	**11,362,008**	**131**	4,661,594	162

Company	**2008 Share awards Number**	**2008 Weighted average grant price Pence**	2007 Share awards Number	2007 Weighted average grant price Pence
Outstanding at beginning of period	**1,237,249**	**162**	–	–
Granted during the period	**3,546,189**	**115**	1,241,137	162
Transfer from other Group companies	**62,751**	**162**	–	–
Lapsed during the period	**(9,406)**	**162**	(3,888)	162
Outstanding at end of the period	**4,836,783**	**127**	1,237,249	162

Share Incentive Plan

The HMV Group plc Share Incentive Plan (the 'SIP'), as discussed more fully in the Director's Remuneration Report on page 24, provides share-based incentives to eligible employees. Under the SIP, employees may acquire Ordinary Shares in three ways. Firstly, the Company can use the SIP as part of its broad incentive arrangements by awarding free shares to employees; in this regard an award of 120 free shares was made to every eligible employee on the Initial Public Offering in May 2002. There have not been any further awards of free shares and there are no plans to award further free shares to any employees. Secondly, the Company may invite UK employees to purchase Ordinary Shares, known as partnership shares, and thirdly, the Company may, if it wishes, agree to match the shares purchased with additional shares, known as Matching Shares. The Company has matched on a one for one basis since the inception of the SIP.

The charge in respect of the SIP during the year ended 26 April 2008 was £0.4m (2007: £0.6m).

31. Reconciliation of movements in equity

Group	Equity share capital £m	Own shares £m	Hedging reserve £m	Foreign currency translation reserve £m	Capital reserve £m	Retained earnings £m	**Total £m**
At 29 April 2006	322.9	(2.9)	–	2.2	0.3	(324.9)	(2.4)
Total recognised income and expense for the period	–	–	–	–	–	19.1	19.1
Ordinary dividend	–	–	–	–	–	(29.7)	(29.7)
Issue of equity shares	0.1	–	–	–	–	–	0.1
Share-based payment awards	–	0.4	–	–	–	(0.4)	–
Credit for share-based payments	–	–	–	–	–	(0.3)	(0.3)
At 28 April 2007	323.0	(2.5)	–	2.2	0.3	(336.2)	(13.2)
Total recognised income and expense for the period	–	–	(0.4)	5.4	–	94.1	99.1
Ordinary dividend	–	–	–	–	–	(29.8)	(29.8)
Issue of equity shares	0.1	–	–	–	–	–	0.1
Share-based payment awards	–	0.5	–	–	–	(0.5)	–
Charge for share-based payments	–	–	–	–	–	2.6	2.6
At 26 April 2008	**323.1**	**(2.0)**	**(0.4)**	**7.6**	**0.3**	**(269.8)**	**58.8**

The cumulative amount of goodwill eliminated against retained earnings at 26 April 2008 is £645.5m (2007: £645.5m).

Company	Equity share capital £m	Own shares £m	Capital reserve £m	Retained earnings £m	**Total £m**
At 29 April 2006 as previously reported	322.9	(2.9)	0.3	137.5	457.8
Prior year adjustment	–	–	–	1.1	1.1
At 29 April 2006 restated	322.9	(2.9)	0.3	138.6	458.9
Total recognised income and expense for the period	–	–	–	(4.3)	(4.3)
Ordinary dividend	–	–	–	(29.7)	(29.7)
Issue of equity shares	0.1	–	–	–	0.1
Share-based payment award	–	0.4	–	(0.4)	–
Capital contribution for share-based payment award	–	–	–	(0.3)	(0.3)
At 28 April 2007	323.0	(2.5)	0.3	103.9	424.7
Total recognised income and expense for the period	–	–	–	38.5	38.5
Ordinary dividend	–	–	–	(29.8)	(29.8)
Issue of equity shares	0.1	–	–	–	0.1
Share-based payment award	–	0.5	–	(0.5)	–
Charge for share-based payments	–	–	–	0.8	0.8
Capital contribution for share-based payment award	–	–	–	1.8	1.8
At 26 April 2008	**323.1**	**(2.0)**	**0.3**	**114.7**	**436.1**

31. Reconciliation of movements in equity continued

The Company has taken advantage of the exemption permitted by Section 230 of the Companies Act 1985 not to publish its individual income statement and related notes. The profit for the period after taxation, dealt with in the accounts of the Company is £33.1m (2007: loss of £6.4m).

Prior year adjustment

Following the implementation of IFRIC 11 IFRS 2 – Group and Treasury Share Transactions, the opening balance sheet at 29 April 2006 has been restated to recognise £1.1m of capital contribution to the subsidiaries in respect of equity-settled share-based payment transactions.

Equity share capital

The balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising 1p Ordinary Shares. At 26 April 2008, equity share capital included share premium of £319.1m (2007: £319.0m).

Other reserve – own shares

The own shares reserve represents the Company's shares that are held by an Employee Benefit Trust. Further details on this reserve can be found in Note 32.

Hedging reserve

The hedging reserve is used to record changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

Capital reserve

The capital reserve is utilised on cancellation of shares. No shares have been cancelled by the Company in the current or previous period.

Capital management

The capital of HMV Group plc is the total equity on the Group's balance sheet. The objective of the Group's capital management is to grow its retailing business and deliver improving returns for its shareholders. The management of the Group's capital is performed by the Board of Directors. There are no externally imposed capital requirements.

32. Other reserve – own shares

Group and Company	Number of shares	Cost £m
Ordinary Shares:		
Balance at 29 April 2006	1,511,479	2.9
Shares vested	(261,606)	(0.4)
Balance at 28 April 2007	1,249,873	2.5
Shares vested	(223,301)	(0.5)
Balance at 26 April 2008	**1,026,572**	**2.0**

The own shares deducted from shareholders' equity represent the Company's shares held by an Employee Benefit Trust ('The Trust'). At 26 April 2008, the Trust held 1,026,572 (2007: 1,249,873) shares with a nominal value of £10,266 (2007: £12,499) and a market value of £1.3m (2007: £1.4m). This shareholding represented 0.3% (2007: 0.3%) of the total shares of the Company. The Trust has waived any entitlement to the receipt of dividends in respect of all of its holding of the Company's Ordinary Shares. The Trust's waiver of dividends may be revoked or varied at any time. All shares held by the Trust have been financed by loans from the Company, which at 26 April 2008 amounted to £1.8m (2007: £2.3m).

The Trust holds shares to satisfy vested awards of the deferred annual bonus element of the HMV Group Incentive Plan for Senior Executives ('HIPS') and the Performance Share Plan (see Note 30). During the period, 223,301 shares were released to employees to satisfy the vesting of awards. It is expected that a further 133,593 shares will vest and be transferred to employees in July 2008.

The Group also has UK and Overseas Trusts which hold the Company's shares in connection with the HMV Group plc Share Incentive Plan, details of which are provided in the Remuneration Report on page 24. At 26 April 2008, the UK and Overseas Trusts held 3,331,471 shares (2007: 3,169,774) with a nominal value of £33,315 (2007: £31,698). The shares within these Trusts are not held as own shares by the Group or the Company.

33. Contingent liabilities

The management of HMV Group is not aware of any legal or arbitration proceedings pending or threatened against any member of HMV Group which may result in any liabilities significantly in excess of provisions in the financial statements. HMV Group plc has given a parent guarantee to support local borrowing facilities, details of which are given in Note 27.

34. Pension arrangements

HMV Group employees are members of a number of pension schemes. The main scheme that covers employees in the United Kingdom is the HMV Group Pension Scheme (the 'Scheme' – established with effect from July 1998). The Scheme has two sections – the Pension Benefit Section and the Pension Saver Section. There is also a small defined benefit pension arrangement in Ireland, which is included in the Group amounts disclosed below, but is not included in the Company amounts.

Pension Benefit Section

The Pension Benefit Section is of the defined benefit type and is an Inland Revenue exempt approved scheme for the purpose of the Income and Corporation Taxes Act 1988. It is contracted out of SERPS. The benefits it provides are based on final pensionable pay and are guaranteed to increase in payment by 5% per annum or by the increase in the cost of living, if less. Members currently contribute at the rate of 5% of pensionable pay.

A valuation is undertaken on at least a triennial basis by a qualified actuary. The most recently completed actuarial valuation was as at 30 June 2004 and was based on an assumed investment return of 6.5% a year, salary increases of 4.25% a year, and annual pension increases of 2.75%, and used the projected unit method. The result of the valuation was a level of asset cover of 79%, representing a funding deficit of £11.5m, which was funded by three £4.4m special contributions, the last of which was paid on 31 May 2006. The market value of the assets of the Pension Benefit Scheme at 30 June 2004 was about £43.9m. In addition, the funding rate was set at 19.9% of pensionable pay (including an allowance for administrative expenses). Therefore from 1 July 2005, the Group has been contributing at a rate of 14.9% of pensionable pay, with the members contributing at 5% of pensionable pay. The actuarial valuation as at 30 June 2007 is now close to completion. Following this, the next actuarial review will take place no later than 30 June 2010.

34. Pension arrangements continued

The Pension Benefit Section was generally closed to new members with effect from 1 January 2002, with the exception of 543 members who transferred into the Scheme on 31 May 2003 from the EMI Group Pension Fund as a result of the Group's flotation on the London Stock Exchange. Actual employer contributions to the Pension Benefit Section for the year ended 26 April 2008 were £2.6m (2007: £7.2m inclusive of a £4.4m special contribution). The total employer contributions to the defined benefit plans for the financial year commencing on 27 April 2008 are expected to be £3.1m.

Pension Saver Section

The Pension Saver Section is of the defined contribution type and is open to all permanent and temporary staff of the Group aged between 18 and 64 years. Members can choose to pay from 2% to 5% of pensionable pay. The Group matches the amount paid by the member up to a maximum of 5% of pensionable pay. Members have a choice of ways to invest their and the Group's contributions in an individual fund to buy pension benefits of their choice. Actual employer contributions to the Pension Saver Section for the year ended 26 April 2008 were £0.9m (2007: £0.8m). In addition, employer contributions to similar pension arrangements in HMV's international businesses totalled £0.5m (2007: £0.4m)

Defined benefit pensions

Amounts reflected in the financial statements in respect of the defined benefit pension scheme are determined with the advice of independent qualified actuaries, Watson Wyatt LLP, on the basis of annual valuations using the projected unit funding method. Scheme assets are stated at their market value at the respective balance sheet dates. The major assumptions used in the calculations are as follows:

	As at 26 April 2008 % per annum	As at 28 April 2007 % per annum
Rate of price inflation	**3.5**	3.1
Rate of salary increase	**5.0**	4.6
Rate of increase for pensions in payment	**3.3**	3.1
Rate used to discount scheme liabilities	**6.2**	5.4
Expected rate of return on equities	**8.1**	7.8
Expected rate of return on bonds	**6.2**	5.4
Expected rate of return on index-linked bonds	**4.6**	4.4

The expected rate of return on Scheme assets is based on consistent assumptions with the previous year, adjusted to reflect changes in market conditions since that date.

The post-retirement mortality assumptions used as at 26 April 2008 are in line with the proposed basis of the draft actuarial funding valuation as at 30 June 2007. They reflect the pensioner mortality 00 series tables rated up one year and based on year of use with allowance for medium cohort improvements applying from 2000 subject to a minimum of 1% per annum. The post-retirement mortality assumptions used as at 28 April 2007 were the standard PM/FA92 series tables with allowance for future improvements in mortality. These bases imply the following life expectancies:

Life expectancy (years)	**2008 At age 65 for someone currently aged 65**	**2008 At age 65 for someone currently aged 50**	2007 At age 60 for someone currently aged 60	2007 At age 60 for someone currently aged 40
Male	**21.3**	**23.1**	23.9	25.9
Female	**23.6**	**25.5**	27.2	29.0

Other non-financial assumptions are consistent with those used in the last complete actuarial valuation of the Scheme as at 30 June 2004.

34. Pension arrangements continued

Group

On the basis of the above assumptions, the amounts charged or credited to the consolidated income statement and consolidated statement of recognised income and expense for the period ended 26 April 2008 are set out below:

	2008 £m	2007 £m
Recognised in the income statement		
Current service cost	**(3.9)**	(4.7)
Past service cost	**–**	–
Total recognised in arriving at operating profit	**(3.9)**	(4.7)
Finance charge		
Interest on pension scheme liabilities	**(5.9)**	(5.2)
Expected rate of return on assets in the pension scheme	**5.8**	5.4
Net (charge) credit to other finance (expense) income	**(0.1)**	0.2
Total income statement charge before deduction for taxation	**(4.0)**	(4.5)
Taken to the consolidated statement of recognised income and expense		
Actual return on scheme assets	**–**	4.1
Less: expected return on scheme assets	**(5.8)**	(5.4)
	(5.8)	(1.3)
Other actuarial gains and losses	**13.1**	1.3
Actuarial gain recognised in the consolidated statement of recognised income and expense	**7.3**	–

The assets and liabilities of the Scheme at the end of the period were:

	As at 26 April 2008 £m	As at 28 April 2007 £m
Equities	**44.6**	46.6
Bonds	**20.7**	19.4
Index-linked bonds	**20.3**	19.1
Other	**0.7**	1.8
Total market value of assets	**86.3**	86.9
Actuarial value of scheme liabilities	**(102.6)**	(109.1)
Deficit in the Scheme	**(16.3)**	(22.2)
Deferred tax	**4.5**	6.6
Net pension liability	**(11.8)**	(15.6)

The pension plans have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

34. Pension arrangements continued

Changes in the fair value of the assets are analysed as follows:

	2008 £m	2007 £m
Total market value of assets at the beginning of the period	**86.9**	75.5
Employer contributions	**2.6**	7.3
Employee contributions	**0.9**	1.0
Benefits paid	**(4.6)**	(1.0)
Expected return on plan assets	**5.8**	5.4
Actuarial (loss) gain	**(5.8)**	(1.3)
Foreign exchange gain	**0.5**	–
Total market value of assets at the end of the period	**86.3**	86.9

Changes in the present value of the Scheme liabilities are analysed as follows:

	2008 £m	2007 £m
Defined benefit pension obligations at the beginning of the period	**(109.1)**	(100.5)
Current service cost	**(3.9)**	(4.7)
Interest on pension scheme liabilities	**(5.9)**	(5.2)
Employee contributions	**(0.9)**	(1.0)
Benefits paid	**4.6**	1.0
Actuarial gain (loss)	**13.1**	1.3
Foreign exchange loss	**(0.5)**	–
Defined benefit pension obligations at the end of the period	**(102.6)**	(109.1)

History of experience gains and losses	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets	**86.3**	86.9	75.5	55.6
Present value of defined benefit obligation	**(102.6)**	(109.1)	(100.5)	(85.6)
Deficit in the Scheme	**(16.3)**	(22.2)	(25.0)	(30.0)
Experience adjustments arising on scheme liabilities	**6.6**	–	–	(2.2)
Loss on assumptions	**6.5**	1.3	(6.5)	(12.5)
Experience adjustments arising on scheme assets	**(5.8)**	(1.3)	8.7	(0.4)

The cumulative amount of actuarial gains and losses recognised since 25 April 2004 in the Group statement of recognised income and expense is £(5.6)m (2007: £(12.9)m). The Directors are unable to determine how much of the Scheme deficit of £17.4m, recognised on transition to IFRS and taken directly to equity in the Group, is attributable to actuarial gains and losses since inception of the Scheme. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of recognised income and expense before 25 April 2004.

34. Pension arrangements continued

Company

The Company, as sponsoring employer of the UK defined benefit scheme, recognises the net pension obligation for the Scheme. The other participating members of the Scheme account for their relevant pension costs on a defined contribution basis. The movement during the period in the defined benefit pension Scheme deficit recognised on the Company balance sheet is as follows:

	2008 £m	2007 £m
Deficit in scheme at the beginning of the period	**(22.0)**	(24.8)
Contributions paid	**2.5**	7.2
Current service cost	**(3.8)**	(4.6)
Net credit (charge) to other finance income (expense)	**(0.1)**	0.2
Actuarial gain	**7.5**	–
Deficit in scheme at the end of the period	**(15.9)**	(22.0)
Deferred tax	**4.5**	6.6
Net pension liability	**(11.4)**	(15.4)

History of experience gains and losses	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets	**83.2**	84.1	73.0	53.9
Present value of defined benefit obligation	**(99.1)**	(106.1)	(97.8)	(83.0)
Deficit in the Scheme	**(15.9)**	(22.0)	(24.8)	(29.1)
Experience adjustments arising on scheme liabilities	**6.9**	–	–	(2.3)
Loss on assumptions	**5.8**	1.3	(6.7)	(12.0)
Experience adjustments arising on scheme assets	**(5.2)**	(1.3)	8.3	(0.4)

The cumulative amount of actuarial gains and losses recognised since 25 April 2004 in the Company statement of recognised income and expense is £(5.6)m (2007: £(13.1)m). The Directors are unable to determine how much of the Scheme deficit of £16.9m, recognised on transition to IFRS and taken directly to equity in the Company, is attributable to actuarial gains and losses since inception of the Scheme. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Company statement of recognised income and expenses before 25 April 2004.

35. Capital commitments

Group	2008 £m	2007 £m
Capital expenditure: contracted but not provided	**2.7**	3.3

The Company had no capital commitments contracted but not provided at either 26 April 2008 or 28 April 2007.

36. Obligations under leases

Obligations under operating leases

The Group operates entirely from properties in respect of which commercial operating leases have been entered into. These leases have an average remaining duration of 10 years. At the end of the period, future minimum rentals payable under non-cancellable operating leases were as follows:

	Group 2008 £m	Group 2007 £m	**Company 2008 £m**	Company 2007 £m
Not later than one year	**150.1**	155.7	**0.2**	0.2
Between two and five years inclusive	**494.1**	500.5	**0.8**	0.8
After five years	**561.2**	579.8	**0.1**	0.3
	1,205.4	1,236.0	**1.1**	1.3

Group companies other than the parent have sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 26 April 2008 is £24.4m (2007: £22.8m).

Obligations under finance leases

The Group has acquired certain plant and equipment using finance lease facilities. These leases have no terms of renewal, purchase options or escalation clauses. At the end of the period, future minimum payments under finance leases were as follows:

Group	**2008 £m**	2007 £m
Not later than one year	**0.3**	0.4
Between two and five years inclusive	**0.5**	0.8
	0.8	1.2
Less finance charges allocated to future periods	**(0.1)**	(0.1)
Present value of minimum lease payments	**0.7**	1.1

The present value of minimum lease payments is analysed as follows:

	2008 £m	2007 £m
Not later than one year	**0.2**	0.3
Between two and five years inclusive	**0.5**	0.8
	0.7	1.1

The Company had no obligations under finance leases.

37. Related party transactions

During the period the Company entered into transactions in the ordinary course of business with related parties. Transactions entered into and balances outstanding at the end of the period are as follows:

	Dividends received from related parties £m	Services rendered to related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m
With subsidiaries				
2008	**55.0**	**3.2**	**28.3**	**111.4**
2007	26.1	1.7	52.6	81.9

Included within the amounts owed by and to related parties, £4.8m (2007: £7.5m) related to intercompany trading balances and is settled monthly with no interest charge. The remaining net balance of £88.1m (2007: £36.8m) related to intercompany loans, on which interest is charged at the Bank of England base rate prevailing at the date of inception and which are repayable on demand.

During the year, the Company entered into a guarantee to secure the obligations of a subsidiary company, HMV Canada Inc, to a supplier, subject to a maximum amount of C$5million until 31 July 2009.

Remuneration of key management personnel

The remuneration of the Directors and key management personnel of the Group is set out below:

	Group 2008 £m	Group 2007 £m	**Company 2008 £m**	Company 2007 £m
Short-term employee benefits	**3.5**	2.8	**2.1**	1.2
Post-employment benefits	**0.2**	0.2	**0.2**	0.2
Share-based payments	**0.1**	0.2	**–**	0.1
Termination benefits	**1.5**	0.3	**–**	–
	5.3	3.5	**2.3**	1.5