

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

DIRECTORS' REPORT

The Directors present their report and the accounts for the year ended 31 March 2005.

Principal Activity

The Company's principal activity is as an investment holding company.

Results and Dividends

The Company made a loss of £23,858,000 (2004: loss £4,942,000). The Directors do not recommend payment of a dividend (2004 dividend: £nil).

Directors and their Interests

The Directors during the year were as follows:

D J T Bratchell
S M Cottis
C J Ancliff[#]
C L Christian[#]

[#] Alternate director only.

No Director had any interest in the shares of the Company at any time during the year.

The interests of the Directors in the share capital of EMI Group plc, the ultimate parent undertaking at the year end were as follows:

	<u>Ordinary Shares</u>		<u>Senior Executive Incentive Plan/Executive Share Incentive Plan</u>		<u>Options*</u>		
	1/4/04	31/3/05	1/4/04	31/3/05	1/4/04	Granted During the Year	Exercised/ Renounced/ Lapsed 31/3/05
D J T Bratchell	7,623	7,623	85,336	110,866	303,357	83,814	- 387,171
S M Cottis	1,203	1,203	-	-	13,570	3,674	- 17,244
C J Ancliff	3,569	3,569	-	-	157,968	69,592	- 227,560
C L Christian	605	605	-	-	26,405	-	- 26,405

* Options over Ordinary Shares are granted under Savings-Related and Executive Share Option Schemes.



Directors' Report Continued

Directors' and Officers' Liability Insurance

The ultimate parent undertaking, EMI Group plc, has maintained insurance to cover Directors' and Officers' liability as permitted by Section 310(3) of the Companies Act 1985.

Overseas Branches


The companies branch based in the Netherlands was closed on 30 September 2005.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors.

The Company having passed an Elective Resolution at a duly convened Extraordinary General Meeting of the Members, is exempt from the need to re-appoint auditors annually. Ernst & Young LLP will therefore continue in office for the forthcoming year in accordance with Section 385A, Companies Act 1985.

By Order of the Board.



For and on behalf of
Mawlaw Secretaries Limited
Joint Secretary

Date: 16/9/5

Registered Office
27 Wrights Lane
London
W8 5SW

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that the accounts comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EMI GROUP INTERNATIONAL HOLDINGS LIMITED

We have audited the company's financial statements for the year ended 31 March 2005 which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, and the related notes 1 to 15. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Ernst & Young LLP
Registered Auditor
London

20/9/05

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2005

	Notes	2005 £000	2004 £000
Administration expenses		(562)	(388)
Other operating income	2	3,174	15,947
		<hr/>	<hr/>
OPERATING PROFIT BEFORE TAXATION		2,612	15,559
Interest receivable	4	1,240	995
Interest payable	5	(27,702)	(21,479)
		<hr/>	<hr/>
		(26,462)	(20,484)
		<hr/>	<hr/>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(23,850)	(4,925)
Taxation	6	(8)	(17)
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(23,858)	(4,942)
Dividends		-	-
		<hr/>	<hr/>
RETAINED LOSS FOR THE YEAR		(23,858)	(4,942)
		<hr/>	<hr/>

All operating profit is from continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains and losses attributable to the shareholders of the Company other than the loss of £23,858,000 (2004: loss £4,942,000).

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

BALANCE SHEET AT 31 MARCH 2005

	Notes	2005 £000	2004 £000
FIXED ASSETS			
Tangible assets	9	1	1
Investments	7	1,690,137	1,688,414
		<hr/>	<hr/>
		1,690,138	1,688,415
		<hr/>	<hr/>
CURRENT ASSETS			
DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Amount due from fellow subsidiary undertaking		22,799	21,572
Debtors and prepayments		1	24
Cash at bank and in hand and cash deposits		410	398
DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Amount due from parent undertaking		382,240	382,240
Amount due from fellow subsidiary undertaking		31,293	31,293
		<hr/>	<hr/>
		436,743	435,527
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Amount due to parent undertaking		(472,848)	(445,659)
Amount due to fellow subsidiary undertaking		(42,998)	(40,699)
Other creditors and accruals		(220)	(27)
Bank borrowings		-	(131)
		<hr/>	<hr/>
		(516,066)	(486,516)
NET CURRENT LIABILITIES		(79,323)	(50,989)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,610,815	1,637,426
		<hr/>	<hr/>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Amount due to parent undertaking	14	(44,047)	(46,800)
Amount due to fellow subsidiary undertaking		(278,800)	(278,800)
		<hr/>	<hr/>
		1,287,968	1,311,826
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	8	1,336,000	1,336,000
Profit and loss reserve	10	(48,032)	(24,174)
		<hr/>	<hr/>
Equity shareholders' funds		1,287,968	1,311,826
		<hr/>	<hr/>

Sm Cottis)
) Director
 16/9/5

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Basis of Accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts present information about the Company as an individual undertaking and not about its Group, because the Company is exempt from preparing group accounts as it is a subsidiary undertaking itself. The accounts are prepared on a going concern basis because the parent undertaking has confirmed that it will provide continuing financial resources to the company to allow it to meet its debts as they fall due, for the foreseeable future.

Currency Translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with in the determination of profit for the financial year.

The Company uses the temporal method of translation to account for the holdings in its Dutch Branch.

Cashflow

The Company has taken advantage of the exemption in FRS1 (revised) not to prepare a cashflow statement as its ultimate parent undertaking prepares a consolidated cashflow statement in accordance with FRS1 (revised).

Related Parties

The Company has taken advantage of the exemption in FRS8 not to disclose related party transactions with wholly owned fellow subsidiary undertakings.

Investments

Investments in subsidiary and associated undertakings are stated at cost less provision to reflect any impairment.

2. OTHER OPERATING INCOME

	2005 £000	2004 £000
Dividends	2,756	15,473
Management fees	423	470
Exchange gain/(loss)	(5)	4
	<hr/>	<hr/>
	3,174	15,947
	<hr/>	<hr/>

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS CONTINUED

3. EMPLOYEES

(All based in the Netherlands)

Average number employed

Employee costs

Wages and salaries

Social security costs

Other pension costs

Pension arrangements

The company pays the pension costs of relevant employees based in The Netherlands on a defined contribution basis. Relevant additional details are disclosed in the accounts of the ultimate parent undertaking EMI Group plc.

4. INTEREST RECEIVABLE

Interest receivable on:

Loans to Group undertakings

Bank deposits

5. INTEREST PAYABLE

Interest payable on:

Loans from Group undertakings

Bank borrowings

	2005	2004
	1	1
	2005	2004
	£000	£000
	72	104
	5	8
	12	21
	89	133

	2005	2004
	£000	£000
	1,226	989
	14	6
	1,240	995

	2005	2004
	£000	£000
	27,702	21,470
	-	9
	27,702	21,479

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS CONTINUED

6. TAXATION

	2005 £000	2004 £000
Corporation tax at 30%	(8)	(17)
Double taxation relief	8	17
	<hr/>	<hr/>
	-	-
Overseas withholding tax	(8)	(17)
	<hr/>	<hr/>
	(8)	(17)
	<hr/>	<hr/>

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

7. INVESTMENTS

a) SHARES IN GROUP UNDERTAKINGS

	<u>Cost</u> £000	<u>Provisions</u> £000	<u>Net Book</u> <u>Value</u> £000
At 31 March 2004	1,688,514	(100)	1,688,414
Additions and transfers	1,723	-	1,723
	<hr/>	<hr/>	<hr/>
At 31 March 2005	1,690,237	(100)	1,690,137
	<hr/>	<hr/>	<hr/>

In the opinion of the Directors the value of the investments is at least equal to their carrying value.

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS CONTINUED

7. INVESTMENTS (continued)

b) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The following were the principal subsidiary undertakings of EMI Group International Holdings Limited at 31 March 2005.

Subsidiary undertakings	Country of Incorporation	Proportion held	Nature of business
Virgin Australia Pty Ltd	Australia	100%	Records
Virgin Australia Music Pty Ltd	Australia	100%	Music Publishing
Virgin Belgium Publishing SA	Belgium	100%	Music Publishing
Virgin Benelux Publishing SA	Netherlands	100%	Music Publishing
Virgin Records Canada Inc	Canada	100%	Records
Virgin Vision Canada Inc	Canada	100%	Video
Virgin Records Denmark Aps	Denmark	100%	Marketing & Promotion
Ediciones Musicales Virgin SA	Spain	100%	Music Publishing
Diski Virgin EPE	Greece	100%	Records
Virgin Music EPE	Greece	100%	Music Publishing
Virgin Japan Ltd	Japan	100%	Records
Virgin Records (NZ) Ltd	New Zealand	100%	Marketing & Promotion
Virgin Music AB	Sweden	100%	Music Publishing
Virgin Music Publishers	Germany	100%	Music Publishing
Virgin Records America Inc	USA	100%	Records
Virgin Music America Inc	USA	100%	Holding Company
Cardiac Records Inc	USA	100%	Records
Caroline Records Calif. Inc	USA	100%	Records
Charisma Records America Inc	USA	100%	Records
Caroline Records Inc	USA	100%	Records
EMI Recorded Music Holdings Inc	USA	100%	Holding Company
Virgin Music Inc	USA	100%	Music Publishing
Virgin Songs Inc	USA	100%	Music Publishing
Virgin Records Inc	USA	100%	Records
Virgin Records (Hong Kong) Ltd	Hong Kong	100%	Records
Virgin Music Publishers (HK) Ltd	Hong Kong	100%	Music Publishing
Virgin Music Japan Ltd	Japan	100%	Music Publishing
EMI Overseas Holdings Ltd	UK	100%	Holding Company
EMI Group Holdings BV	Netherlands	100%	Holding Company

The Company directly holds shares in EMI Group Holdings BV and EMI Overseas Holdings Ltd. The other subsidiary undertakings are held indirectly.

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS CONTINUED

8. SHARE CAPITAL

	2005 £	2004 £
Authorised:		
Ordinary shares of £1 each	64,000,100	64,000,100
Redeemable ordinary shares of £1 each	1,399,999,900	1,399,999,900
	<hr/>	<hr/>
Allotted, called up and fully paid:		
Ordinary shares of £1 each	100	100
Redeemable ordinary shares of £1 each	1,335,999,900	1,335,999,900
	<hr/>	<hr/>
	1,336,000,000	1,336,000,000
	<hr/>	<hr/>

The redeemable ordinary shares may be redeemed at any time provided that the company provides not less than 3 months notice of its intention to do so.

9. TANGIBLE FIXED ASSETS

Plant and Equipment

	Cost £000	Depreciation £000	Net Book Value £000
At 31 March 2004	4	(3)	1
Additions	-	-	-
Charge for period	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2005	4	(3)	1
	<hr/>	<hr/>	<hr/>

Depreciation of plant and equipment is calculated on cost at rates estimated to write off the cost of the relevant asset by equal annual amounts over their expected useful lives. The annual rate used was 20%.

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS CONTINUED

10. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<u>Share Capital</u> £000	<u>Profit & Loss Reserve</u> £000	<u>Total</u> £000
At 1 April 2003	1,336,000	(19,232)	1,316,768
Result for the year	-	(4,942)	(4,942)
	<hr/>	<hr/>	<hr/>
At 31 March 2004	1,336,000	(24,174)	1,311,826
Result for the year	-	(23,858)	(23,858)
	<hr/>	<hr/>	<hr/>
At 31 March 2005	1,336,000	(48,032)	1,287,968
	<hr/>	<hr/>	<hr/>

11. CONTINGENT LIABILITIES

The Company has provided a guarantee to its clearing banks in respect of borrowings of other EMI Group plc UK Group companies. Such guarantee is limited to the amount of cash deposited by the Company with the banks. At 31 March 2005, £374,000 (2004: £398,000) was guaranteed.

12. DIRECTORS' EMOLUMENTS AND STAFF COSTS

No Director received any remuneration during the year in respect of his/her services to the Company. The company had no employees.

13. AUDITORS' REMUNERATION

The Auditors remuneration is borne by the parent undertaking.

14. AMOUNT DUE TO PARENT UNDERTAKING

Loans from the parent undertaking are interest free, unsecured with no fixed repayment date.

15. PARENT UNDERTAKING

The parent undertaking of the group of undertakings for which group accounts are drawn up and of which the company is a member is EMI Group plc, which is the ultimate parent undertaking registered in England and Wales. Copies of EMI Group plc's accounts can be obtained from EMI Group plc, 27 Wrights Lane, London W8 5SW, England.