

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

DIRECTORS' REPORT

The Directors present their report and the accounts for the year ended 31 March 2006.

Business Review and Principal Activity

The Company is a wholly owned subsidiary of EMI Group plc. The principal activity of the Company is that of an investment holding company within the EMI Group. There has not been any change to the principal activity of the Company during the year ended 31 March 2006. The directors do not anticipate any change to the principal activity of the company during the next year.

Financial Review

As stated in the profit and loss account on page 5 the Company made a loss before tax of £28,228,000 in the year to 31 March 2006 which represents an increase of 18.4% compared with the previous year's loss before tax of £23,850,000. The higher loss is partly due to lower dividend income in the current year.

In the balance sheet shown on page 6 there have been no significant changes in the net assets of the Company compared with the prior year.

Principal Risks and Uncertainties

The Company operates as part of the EMI Group and all of its transactions are with fellow group undertakings. As such its activities are dependent on the activities of the EMI Group as a whole. The risks and uncertainties facing the Company are linked to those of the Group. A detailed discussion of the Group risks and uncertainties is contained in the Group's annual report.

Dividends

The Directors do not recommend payment of a final dividend (2005 dividend: £nil). No dividends were paid during the year (2005: 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.

Company No. 1407770

Directors' Report Continued

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>		
	1/4/05	31/3/06	1/4/05	31/3/06	1/4/05	Granted During the Year	Exercised/ Renounced/ Lapsed 31/3/06
D J T Bratchell	7,623	7,623	110,866	148,378	387,171	75,024	(8,500)
S M Cottis	1,203	1,203	-	-	17,244	-	-
C J Ancliff	3,569	3,569	-	-	227,560	63,824	-
C L Christian	605	605	-	-	26,405	-	-

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

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

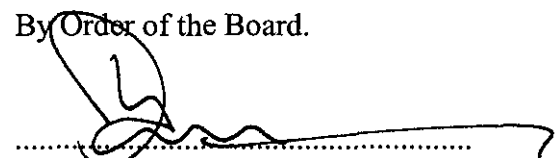
The company's branch based in the Netherlands was closed on 30 September 2004.

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.


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For and on behalf of
Mawlaw Secretaries Limited
Joint Secretary

Date: 13.9.2006

Registered Office
27 Wrights Lane
London
W8 5SW

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The Directors are responsible for preparing the accounts in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

So far as each Director is aware, there is no relevant audit information (as defined in S244ZA (3) of the Companies Act 1985) of which the Company's auditors are unaware, and each Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of, and to establish that the auditors are aware of, any relevant audit information.

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 2006 which comprise the Profit and Loss Account, Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 16. 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

The Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

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

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

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

Basis of audit opinion


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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.


Ernst & Young LLP
Registered Auditor
London

20.9.06

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 £000	2005 £000
Administration expenses		8	(562)
Other operating income	2	-	3,174
		<hr/>	<hr/>
OPERATING PROFIT BEFORE TAXATION		8	2,612
Interest receivable	4	1,312	1,240
Interest payable	5	(29,548)	(27,702)
		<hr/>	<hr/>
		(28,236)	(26,462)
		<hr/>	<hr/>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(28,228)	(23,850)
Taxation	6	-	(8)
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(28,228)	(23,858)
Dividends		-	-
		<hr/>	<hr/>
RETAINED LOSS FOR THE YEAR		(28,228)	(23,858)
		<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 £23,228,000 (2005: loss £23,858,000).

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

BALANCE SHEET AT 31 MARCH 2006

		2006	2005
	Notes	£000	Restated £000
FIXED ASSETS			
Tangible assets	9	1	1
Investments	7	1,690,150	1,690,137
		<hr/>	<hr/>
		1,690,151	1,690,138
		<hr/>	<hr/>
CURRENT ASSETS			
DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Amount due from fellow subsidiary undertaking		24,105	22,799
Debtors and prepayments		-	1
Cash at bank and in hand and cash deposits		11	410
DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Amount due from parent undertaking		382,226	382,240
Amount due from fellow subsidiary undertaking		31,293	31,293
		<hr/>	<hr/>
		437,635	436,743
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Amount due to parent undertaking		(499,936)	(472,848)
Amount due to fellow subsidiary undertaking		(45,229)	(42,998)
Other creditors and accruals		(34)	(220)
Bank borrowings		-	-
		<hr/>	<hr/>
		(545,199)	(516,066)
NET CURRENT LIABILITIES		<hr/>	<hr/>
		(107,564)	(79,323)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/>	<hr/>
		1,582,587	1,610,815
		<hr/>	<hr/>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Amount due to parent undertaking	14	(44,047)	(44,047)
Amount due to fellow subsidiary undertaking		(278,800)	(278,800)
Redeemable shares	15	(1,336,000)	(1,336,000)
		<hr/>	<hr/>
		(76,260)	(48,032)
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	8	-	-
Profit and loss reserve	10	(76,260)	(48,032)
		<hr/>	<hr/>
Equity shareholders' funds		(76,260)	(48,032)
		<hr/>	<hr/>


) Director

13/9/06

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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 former Dutch Branch. The Dutch Branch was closed in September 2004.

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).

Events after the balance sheet date

The adoption of FRS21 has resulted in a change of accounting policy in respect of proposed equity dividends. If the Company declares dividends to the holders of equity instruments after the balance sheet date, the Company does not recognise those dividends as a liability at the balance sheet date, even if those dividends are paid or approved by the shareholders before the financial statements are authorised for issue. The aggregate amount of equity dividends proposed before approval of the financial statements, which have not been included in liabilities at the balance sheet date, are disclosed in the notes to the financial statements. Previously, proposed equity dividends were recorded as liabilities at the balance sheet date. Interim dividends are recorded as appropriations from equity in the year in which they are paid. FRS21 has been applied retrospectively. There has been no effect on the result of the company in the prior year from the application of FRS21.

Financial Instruments

The adoption of FRS25 has resulted in a change in accounting policy in respect of redeemable shares. These shares are now treated as liabilities, rather than shareholders' equity. The effect of this change in policy has been to reduce equity shareholders' funds by £1,335,999,900, with a corresponding increase in creditors: amounts falling due after more than one year. The prior year comparatives have also been restated, as noted below.

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. ACCOUNTING POLICIES (continued)

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.

Restatement of Comparatives

The prior year comparative numbers have been restated in line with the adoption of FRS25 in respect of redeemable shares as noted in the paragraph above. The effect of this restatement has been to reduce equity shareholders' funds by £1,335,999,900, with a corresponding increase in creditors: amounts falling due after more than one year. This reclassification has had no profit and loss impact.

2. OTHER OPERATING INCOME

	2006 £000	2005 £000
Dividends	-	2,756
Management fees	-	423
Exchange gain/(loss)	-	(5)
	<hr/>	<hr/>
	-	3,174
	<hr/>	<hr/>

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. EMPLOYEES

(All based in the Netherlands)

2006 2005

Average number employed - 1

Employee costs 2006 2005
£000 £000

Wages and salaries - 72

Social security costs - 5

Other pension costs - 12

-	89
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Pension arrangements

In the prior year the company paid 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

2006 2005
£000 £000

Interest receivable on:

Loans to Group undertakings 1,306 1,226

Bank deposits 6 14

1,312	1,240
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5. INTEREST PAYABLE

2006 2005
£000 £000

Interest payable on:

Loans from Group undertakings 29,548 27,702

29,548	27,702
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EMI GROUP INTERNATIONAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2006 £000	2005 £000
Loss on ordinary activities before tax	(28,228)	(23,858)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	(8,468)	(7,157)
Group relief	8,468	7,157
Overseas withholding tax	-	(8)
Total current tax	-	(8)

The Company is primarily liable for UK corporation tax on its profits. However, no provision has been made in these 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 all liability for any such taxation as long as the Company remains a subsidiary. In view of the undertaking received, no disclosure is made in the 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 2005	1,690,237	(100)	1,690,137
Additions and transfers	13	-	13
At 31 March 2006	1,690,250	(100)	1,690,150

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 FINANCIAL STATEMENTS CONTINUED

7. INVESTMENTS (continued)

b) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The following were the principal subsidiary undertakings of EMI Group International Holdings Limited at 31 March 2006.

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 FINANCIAL STATEMENTS CONTINUED

8. SHARE CAPITAL

	2006	2005
	£	Restated £
Authorised:		
Ordinary shares of £1 each	64,000,100	64,000,100
Allotted, called up and fully paid:		
Ordinary shares of £1 each	100	100

9. TANGIBLE FIXED ASSETS

Plant and Equipment

	Cost £000	Depreciation £000	Net Book Value £000
At 31 March 2005	4	(3)	1
Additions	-	-	-
Charge for period	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2006	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 FINANCIAL STATEMENTS CONTINUED

10. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share <u>Capital</u> £000	Profit & <u>Loss Reserve</u> £000	<u>Total</u> £000
At 31 March 2004 (as reported)	1,336,000	(24,174)	1,311,826
Prior year adjustment (note 1)	(1,336,000)	-	(1,336,000)
	<hr/>	<hr/>	<hr/>
At 31 March 2004 (as restated)	-	(24,174)	(24,174)
Loss for the year	-	(23,858)	(23,858)
	<hr/>	<hr/>	<hr/>
At 31 March 2005	-	(48,032)	(48,032)
Result for the year	-	(28,228)	(28,228)
	<hr/>	<hr/>	<hr/>
At 31 March 2006	-	(76,260)	(76,260)
	<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 2006, £11,000 (2005: £374,000) 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.

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. REDEEMABLE SHARES

The redeemable shares have been reclassified from equity to creditors: amounts falling due after more than one year.

	2006 £000	2005 Restated £000
<u>Authorised</u>		
1,399,999,900 redeemable ordinary shares of £1 each	1,400,000	1,400,000
<u>Issued</u>		
1,335,999,900 redeemable ordinary shares of £1 each	1,336,000	1,336,000

The redeemable ordinary shares were issued at par. No premium is payable on redemption.

Rights of preference shares

Each of the redeemable ordinary shares ranks pari passu in all respects with the Ordinary shares except in respect of redemption rights.

Redemption

With the prior approval of members by ordinary resolution in general meeting, the Company shall have the right at any time to redeem all or any of the Redeemable Ordinary Shares for the time being outstanding and fully paid upon giving to the holders of such of the Redeemable Ordinary Shares as are to be redeemed not less than three months previous notice in writing of its intention to do so.

With the prior approval of members by ordinary resolution in general meeting, the holders of the Redeemable Ordinary Shares shall have the right at any time to require all or any of the Redeemable Ordinary Shares held by them which are fully paid or credited as fully paid to be redeemed by the Company by giving to the Company not less than three months previous notice in writing.

16. 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.