

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

(formerly VIRGIN RECORDS OVERSEAS LIMITED)

DIRECTORS' REPORT

The Directors present their report and the accounts for the year ended 31 March 1997.

Principal Activities

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

Results and Dividends

The Company made a profit of £169,107,000 (1996: £421,000). An interim dividend of £53,600,000 has been paid.

Directors and their Interests

The Directors during the year and subsequently were as follows:

P L Foster Back	(appointed 30.04.96)
J Berry	(resigned 15.09.96)
P Robinson	(resigned 30.04.96)
P Watson	(appointed 30.04.96)
S G Young	(appointed 30.04.96)

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>Options*</u>		
	#1/4/96	31/3/97	#1/4/96	Granted @ During the Year	Exercised	31/3/97
P Foster Back	-	480	19,495	30,321	19,495	30,321
P Watson	661	-	2,636	1,850	2,636	1,850
S Young	1,444	32,634	73,306	10,287	59,906	23,687

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

Or at subsequent date of appointment

@ Includes adjustments on demerger



Directors' Report Continued

Directors' and Officers' Liability Insurance

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

Change of Name

By Special Resolution of the Company, the name of the Company was changed on 29 April 1996 from Virgin Records Overseas Limited to EMI Group International Holdings Limited.

Overseas Branches

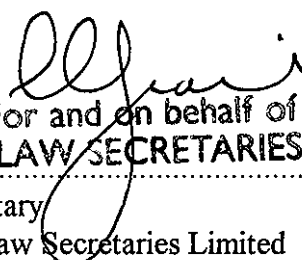
The company has a branch based in the Netherlands.

Auditors

Ernst & Young 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 will therefore continue in office for the forthcoming year in accordance with Section 385(A), Companies Act 1985.

By Order of the Board.


For and on behalf of
MAWLAW SECRETARIES LTD
.....
Secretary
Mawlaw Secretaries Limited

Date: 23 October 1997

Registered Office
4 Tenterden Street
London
W1A 2AY

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

(formerly VIRGIN RECORDS OVERSEAS 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; 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.

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

We have audited the accounts on pages 5 to 12 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 7.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 3, the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts are free from material misstatement, whether caused by fraud, other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young
Chartered Accountants
Registered Auditor
London

Date : *14 November 1997*

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

(formerly VIRGIN RECORDS OVERSEAS LIMITED)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1997

	Notes	1997 £000	1996 £000
Administration expenses		(595)	-
Release of provision		-	181
Other operating income	2	166,976	240
		<hr/>	<hr/>
OPERATING PROFIT BEFORE TAXATION		166,381	421
Interest receivable	4	2,755	-
Interest payable	5	(5)	-
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		169,131	421
Taxation	6	(24)	-
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		169,107	421
Dividends		(53,600)	-
		<hr/>	<hr/>
RETAINED PROFIT FOR THE YEAR		115,507	421
		<hr/>	<hr/>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

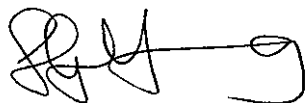
There are no recognised gains and loss attributable to the shareholders of the Company other than the retained profit of £169,107,000 (1996 gain: £421,000).

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

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BALANCE SHEET AT 31 MARCH 1997

	Notes	1997 £000	1996 £000
FIXED ASSETS			
Tangible assets	9	2	-
Investments	7	1,410,802	1,187,953
		<u>1,410,804</u>	<u>1,187,953</u>
CURRENT ASSETS			
DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Amount due from fellow subsidiary undertakings		96,877	9,398
Amount due from parent undertaking		46,301	-
Debtors and prepayments		388	-
Cash and bank balances		33,620	-
		<u>177,186</u>	<u>9,398</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Amount due to fellow subsidiary undertaking		(59,584)	(1,179,138)
Other creditors and accruals		(24)	-
Bank overdraft		(195)	-
		<u>(59,803)</u>	<u>(1,179,138)</u>
NET CURRENT ASSETS / (LIABILITIES)		<u>117,383</u>	<u>(1,169,740)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,528,187</u>	<u>18,213</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Amount due to parent undertaking	15	(1,394,467)	-
		<u>133,720</u>	<u>18,213</u>
CAPITAL AND RESERVES			
Called up share capital	8	-	-
Profit and loss reserve	10	133,720	18,213
		<u>133,720</u>	<u>18,213</u>



(6 November 1997) Directors(s)

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

(formerly VIRGIN RECORDS OVERSEAS 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.

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 permanent diminution in value.

2. OTHER OPERATING INCOME

	1997 £000	1996 £000
Dividends	166,642	240
Management fees	351	-
Exchange loss	(17)	-
	<hr/> 166,976	<hr/> 240

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

(formerly VIRGIN RECORDS OVERSEAS LIMITED)

NOTES TO THE ACCOUNTS

3. EMPLOYEES

(all based in the Netherlands)

	1997	1996
Average number employed	1	-
Employee costs	1997 £000	1996 £000
Wages and salaries	98	-
Social security costs	8	-
Other pension costs	4	-
	<hr/> 110	<hr/> -
	<hr/>	<hr/>

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

	1997 £000	1996 £000
Interest receivable on:		
Loans to Group undertakings	1,501	-
Bank deposits	1,254	-
	<hr/> 2,755	<hr/> -
	<hr/>	<hr/>

5. INTEREST PAYABLE

	1997 £000	1996 £000
Bank overdraft	5	-
	<hr/>	<hr/>

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

(formerly VIRGIN RECORDS OVERSEAS LIMITED)

NOTES TO THE ACCOUNTS

6. TAXATION

	1997 £000	1996 £000
Corporation tax at 33%	(24)	-
Double taxation relief	24	-
	<hr/>	<hr/>
	-	-
Overseas withholding tax	(24)	-
	<hr/>	<hr/>
	(24)	-
	<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 (formerly THORN EMI 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	Net Book <u>Value</u> £000
At 31 March 1996	1,188,053	(100)	1,187,953
Additions and transfers	222,849	-	222,849
	<hr/>	<hr/>	<hr/>
At 31 March 1997	1,410,902	(100)	1,410,802
	<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

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NOTES TO THE ACCOUNTS

7. INVESTMENTS (continued)

b) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The following were the principal subsidiary undertakings of EMI Group International Holdings Limited at 31 March 1997.

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 SA	Belgium	100%	Marketing & Promotion
Virgin Belgium Publishing SA	Belgium	100%	Music Publishing
Virgin Benelux BV	Netherlands	100%	Records
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
Virgin France SAE	France	100%	Records
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 Schallplatten GmbH Co KG	Germany	100%	Records
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
Virgin Holdings Inc	USA	100%	Holding Company
Virgin Music Inc	USA	100%	Music Publishing
Virgin Songs Inc	USA	100%	Music Publishing
Virgin Oil & Gas Inc	USA	100%	Oil exploration
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 Group Holdings BV	Netherlands	100%	Holding Company

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

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NOTES TO THE ACCOUNTS

8. SHARE CAPITAL

	1997 £	1996 £
Authorised: 100 ordinary shares of £1 each	100	100
	<hr/>	<hr/>
Allotted, called up and fully paid: 100 ordinary shares of £1 each	100	100
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9. TANGIBLE FIXED ASSETS

Plant and Equipment

	Cost £000	Depreciation £000	Net Book Value £000
At 31 March 1996	-	-	-
Additions	3	-	3
Charge for period	-	(1)	(1)
	<hr/>	<hr/>	<hr/>
At 31 March 1997	3	(1)	2
	<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%.

10. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share Capital £000	Profit & Loss Reserve £000	Total £000
At 31 March 1996	-	18,213	18,213
Retained profit for the year	-	115,507	115,507
	<hr/>	<hr/>	<hr/>
At 31 March 1997	-	133,720	133,720
	<hr/>	<hr/>	<hr/>

EMI GROUP INTERNATIONAL HOLDINGS LIMITED

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NOTES TO THE ACCOUNTS

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 1997, £33,620,000 (1996: NIL) was guaranteed.

12. DIRECTORS' EMOLUMENTS

There are no employees of the company other than the Directors. No Director received any remuneration during the year in respect of his/her services to the Company.

13. OPERATING PROFIT

Operating profit is stated after charging:

	1997 £000	1996 £000
Depreciation on plant and equipment	1	-

14. AUDITORS' REMUNERATION

The auditors remuneration is borne by the parent undertaking.

15. AMOUNT DUE TO PARENT UNDERTAKING

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

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, 4 Tenterden Street, Hanover Square, London W1A 2AY, England.

On 16 August 1996 at THORN EMI plc's Extraordinary General Meeting, a resolution proposing the demerger of THORN was passed. With effect from 19 August 1996 the name of the parent undertaking has changed from THORN EMI plc to EMI Group plc.