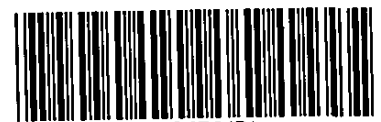


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**V2 MUSIC (HOLDINGS)
LIMITED**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2007

Company no 3353454

V2 MUSIC (HOLDINGS) LIMITED

FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

Company registration number	3353454
Registered office	SLC Corporate Services Limited Thames House Portsmouth Road Esher Surrey KT10 9AD
Directors	A Brenner A D Harlow K R A Ibbett M Petrick M Piazzi
Secretary	SLC Corporate Services Limited Thames House Portsmouth Road Esher Surrey KT10 9AD
Bankers	Lloyds TSB Bank plc City Office 25 Gresham Street London EC2V 7HN
Auditors	Grant Thornton UK LLP Registered Auditors Chartered Accountants Grant Thornton House Melton Street Euston Square London NW1 2EP

V2 MUSIC (HOLDINGS) LIMITED

FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

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V2 MUSIC (HOLDINGS) LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 March 2007

Principal activities

The principal activities of the Group in the year under review were the production and sale of phonographic recordings and the acquisition and exploitation of copyrights in songs in the United Kingdom, Continental Europe, North and South America

The financial statements have been prepared on a going concern basis which assumes that the company will have sufficient funds to meet its liabilities as and when they fall due for the foreseeable future and for at least the next 12 months

Morgan Stanley & Co Incorporated, the company's ultimate parent undertaking, has provided an undertaking to the company to provide the company and the Group with sufficient funding to enable it to meet its liabilities, as and when they fall due, for the foreseeable future

Business review

There was a loss for the year after taxation amounting to £11.9m (2006: £9.2m). The unpaid dividends in the year (relating to the 6% cumulative preference shares) amounted to £208,000 (2006: £208,000)

On 25 September 2007, V2 Music Group Limited and its subsidiaries was sold to Centenary Holdings Limited, a subsidiary of Vivendi SA

On 15 October 2007, the 100% shareholding in V2 Holdings (USA) Inc and its subsidiaries was transferred to Morgan Stanley & Co at market value

Uncertainties and risks faced by the Group

Decline of recorded music sales

The recorded music industry continues its decline of recent years. While increasing digital sales are expected ultimately to reverse this trend, the timing and scale to which this occurs remain uncertain. The challenge for the Group is to ensure that efficiencies in the existing recorded music business are achieved, while capitalising from the potential of digital sales as they are realised across the industry

Piracy

The impact of continued organised piracy of recorded music rights, both physical and digital, is significant to the Group. There is expected to be an impact on results on a continuing basis, but the Group continues to investigate initiatives to minimise this risk

Employees

The company continues to maintain its commitment to employee involvement. Employees are kept informed of corporate results and business developments by regular announcements. The company pursues a policy of equal opportunity for all employees and potential employees. People with disabilities are, wherever possible, given the same opportunities for employment, training, career development and promotion, taking into account their individual abilities and qualifications. The company continues to consult with employees on a regular basis so that the views of employees can be taken into account in making decisions that are likely to affect their interests

V2 MUSIC (HOLDINGS) LIMITED

REPORT OF THE DIRECTORS

Directors

The present membership of the Board is set out below. All served on the Board throughout the year.

A Brenner (US Citizen)
A D Harlow
K R A Ibbett
M Petrick (US Citizen)
M Piazza

No directors who held office at the end of the financial year had any share capital in the company or any options to acquire ordinary shares in the company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, or lapsed during the financial year.

Financial risk management objectives and policies

The company uses various financial instruments which include cash, trade debtors, trade creditors and amounts due to group undertakings that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's operations. The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below.

The main risks arising from the company's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Currency risk

The company is exposed to translation and transaction foreign exchange risk.

Approximately 9% of the group's purchases are from mainland USA and are transacted in US dollars. The company does not adopt a prescribed policy to eliminate currency exposures but does purchase US dollars to hold for the purpose of settling these liabilities from time to time when rates are favourable.

The company's financial liabilities in currencies other than sterling amount to \$1,135,000. Foreign exchange differences on retranslation of these liabilities are taken to the profit and loss account of the company.

Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

The company's policy throughout the year has been to achieve this objective through management's day to day involvement in business decisions rather than through setting maximum or minimum liquidity ratios.

Interest rate risk

The company finances its operations through on-going support from its parent company.

V2 MUSIC (HOLDINGS) LIMITED

REPORT OF THE DIRECTORS

The interest rate exposure of the financial assets and liabilities of the company as at 31 March 2007 is shown in the balance sheet. The balance sheet includes trade debtors and creditors as these do not attract interest and are therefore subject to fair value interest rate risk.

Credit risk

The company's principal financial assets are cash and trade debtors. The credit risk associated with cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises, therefore, from trade debtors.

In order to manage credit risk management set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the financial controller on a regular basis in conjunction with debt ageing and collection history.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union/United Kingdom Accounting Standards (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 these financial statements, 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 financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In so far as the directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for keeping proper accounting records that 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.

The directors are responsible for the maintenance and integrity of the website and accordingly the auditors accept no responsibility for the information published. Information published on the website is accessible in many countries and legislation in the UK concerning the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

V2 MUSIC (HOLDINGS) LIMITED

REPORT OF THE DIRECTORS

Auditors

Grant Thornton UK LLP were appointed auditors on 2 April to fill a casual vacancy in accordance with section 388(1) of the Companies Act 1985. Special notice pursuant to section 388(3) having been given, a resolution to reappoint Grant Thornton as auditors will be proposed at the Annual General Meeting.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, consisting of a stylized 'A' followed by a long horizontal line.

A Brenner
Director

30 April 2008

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF

V2 MUSIC (HOLDINGS) LIMITED

We have audited the group and parent company financial statements (the "financial statements") of V2 Music (Holdings) Limited for the year ended 31 March 2007 which comprise the principal accounting policies, the consolidated profit and loss account, the group and company balance sheets, the consolidated cash flow statement, the group statement of total recognised gains and losses and notes 1 to 26. These financial statements have been prepared under 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' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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, whether they 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.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 group's and company's circumstances, consistently applied and adequately disclosed.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF

V2 MUSIC (HOLDINGS) LIMITED

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 group's and the parent company's affairs as at 31 March 2007 and of the group's 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 for the year ended 31 March 2007

Grant Thornton UK LLP

**GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

LONDON

30 Apr 2008

V2 MUSIC (HOLDINGS) LIMITED

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

The principal accounting policies of the company have remained unchanged from the previous year and are set out below

GOING CONCERN

The financial statements have been prepared on a going concern basis in view of the fact that Morgan Stanley & Co Incorporated has formally agreed to provide financial and other support to the company and the group to enable it to meet its liabilities as they fall due for at least the next twelve months from the date of signing of these financial statements. The directors have no reason to believe that Morgan Stanley & Co Incorporated will not be in a position to provide the support referred to above and, accordingly, they have prepared the financial statements on a going concern basis

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings ("the group") made up to 31 March 2007. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the group has a long-term interest and over which it exercises joint control. The group's share of the profit less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

In accordance with section 230(4) of the Companies Act 1985, V2 Music (Holdings) Limited is exempt from the requirement to present its own profit and loss account. The company's retained loss for the financial period is £4.6m (2006: £25.5m).

TURNOVER

Turnover for sales of physical stock represents the invoiced value of goods and services provided to customers outside of the group and is net of discounts, value added tax and provisions for goods likely to be returned.

Turnover for licence income represents advances received and amounts reported to the group in statements received during the year.

Turnover in respect of mechanical and performance royalties represents amounts reported to the group in statements received in the year.

Turnover for synchronisation fees and sundry publishing income represents amounts invoiced during the year and is net of value added tax.

V2 MUSIC (HOLDINGS) LIMITED

PRINCIPAL ACCOUNTING POLICIES

INTANGIBLE ASSETS

Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably. Any intangible assets such as trademarks and catalogues purchased by the company, are amortised to nil by equal annual instalments over their useful economic lives of 10 years.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The rates generally applicable are:

Leasehold land and buildings	Life of lease
Computer equipment	2 to 10 years
Fixture, fittings and equipment	2 to 5 years

LEASES

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

INVESTMENTS

In the company's accounts, investments in subsidiary and associated undertakings are stated at cost less amounts written off for impairment. Dividends received are credited to the company's profit and loss account to the extent that they represent a realised profit for the company. Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

STOCKS

Stocks are stated at the lower of cost and net realisable value.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax on defined benefit pension scheme surpluses or deficits is adjusted against these surpluses. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

V2 MUSIC (HOLDINGS) LIMITED

PRINCIPAL ACCOUNTING POLICIES

FOREIGN CURRENCY

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

PENSIONS AND POST RETIREMENT BENEFITS

The group operates a defined contribution pension scheme for its employees and executives. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

IMPAIRMENT

The group evaluates its fixed assets for financial impairment where events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. When such evaluations indicate that the carrying value of an asset exceeds its recoverable value, impairment in value is recorded.

RECORD ROYALTIES PAYABLE

Provision is made for royalties payable at the end of each accounting period in respect of income receivable on sales of records arising during each accounting period.

Advances and other recoupable costs paid against future royalties are carried forward and recognised as an asset where such advances relate to current unreleased productions of established artists and where it is estimated that sufficient future royalties will be earned for recoupment for those productions. Following release, such advances are only carried forward if it is estimated that sufficient royalties will be earned to recoup the advance on the relevant productions.

Non-recoupable recording, production and development costs in addition to the catalogue of recorded music are wholly written off as incurred.

CASH AND LIQUID RESOURCES

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

FINANCE COSTS

Costs incurred in raising funds are deducted from the amount raised and amortised over the life of the debt facility on a constant-yield basis, unless they relate primarily to new equity funding and only partly to debt funding, in which case they are expensed during the year. Any unamortised amounts are released to the profit and loss account if debt facilities are repaid in advance by their repayment dates.

V2 MUSIC (HOLDINGS) LIMITED

PRINCIPAL ACCOUNTING POLICIES

CLASSIFICATION OF FINANCIAL INSTRUMENTS ISSUED BY THE GROUP

Following the adoption of FRS 25 in the prior year, financial instruments issued by the group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions

- a) they include no contractual obligations upon the company (or group as they case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company (or group), and
- b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds

Both the group and the company have taken advantage of the transitional arrangements of FRS 25 not to restate corresponding amounts in accordance with the above policy. The adjustments necessary to implement this policy were made as at 1 April 2005 with the net adjustment to net assets, after tax, taken through the 2006 reconciliation of movements in shareholders' funds. The preference shares were treated as part of shareholders' funds in 2005 and as liabilities in 2006, increasing net debt and reducing reported share capital and net assets at the start of 2006

V2 MUSIC (HOLDINGS) LIMITED**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the year ended 31 MARCH 2007

	Note	2007 £'000	2006 £'000 (as restated)
Group turnover	1	29,567	47,557
Cost of sales		<u>(26,750)</u>	<u>(43,351)</u>
Gross profit		2,817	4,206
Operating expenses		<u>(11,967)</u>	<u>(14,053)</u>
Group operating loss		(9,150)	(9,847)
Profit on sale of land and buildings		2,185	-
Profit on sale and termination of businesses		<u>788</u>	<u>5,635</u>
Loss on ordinary activities before interest and tax		(6,177)	(4,212)
Interest payable and similar charges	2	(6,176)	(5,148)
Interest receivable and similar income	3	<u>859</u>	<u>141</u>
Loss on ordinary activities before taxation	1	(11,494)	(9,219)
Tax on loss on ordinary activities	5	<u>(320)</u>	<u>(170)</u>
Loss on ordinary activities after taxation		(11,814)	(9,389)
Equity minority interest (as restated)		(67)	157
Loss for the financial year	17	<u>(11,881)</u>	<u>(9,232)</u>

All transactions arise from continuing operations

There were no recognised gains or losses other than the loss for the financial year

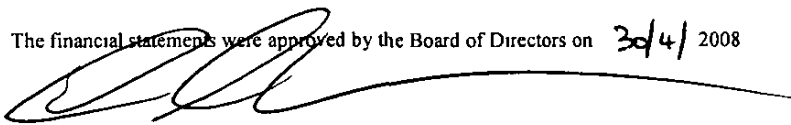
The accompanying accounting policies and notes form an integral part of these financial statements

V2 MUSIC (HOLDINGS) LIMITED

CONSOLIDATED BALANCE SHEET AT 31 MARCH 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Intangible assets	6	8,080	10,115
Tangible assets	7	676	818
Investments	8	509	569
		<u>9,265</u>	<u>11,502</u>
Current assets			
Stocks	9	374	275
Debtors	10	11,629	13,090
Cash at bank and in hand		5,521	3,358
		<u>17,524</u>	<u>16,723</u>
Creditors amounts falling due within one year	11	<u>(23,768)</u>	<u>(28,699)</u>
Net current liabilities		<u>(6,244)</u>	<u>(11,976)</u>
Total assets less current liabilities		<u>3,021</u>	<u>(474)</u>
Creditors amounts falling due after more than one year	12	<u>(95,281)</u>	<u>(79,594)</u>
Net liabilities		<u>(92,260)</u>	<u>(80,068)</u>
Capital and reserves			
Called up share capital	14	147,367	147,367
Shares to be issued	14	1,340	1,340
Share premium account	15	30,959	30,959
Capital redemption reserve	15	19	19
Profit and loss account	15	(271,504)	(259,214)
Shareholders' deficit	17	(91,819)	(79,529)
Equity minority interests	16	<u>(441)</u>	<u>(539)</u>
		<u>(92,260)</u>	<u>(80,068)</u>

The financial statements were approved by the Board of Directors on 30/4/ 2008


A Brenner - Director

V2 MUSIC (HOLDINGS) LIMITED

COMPANY BALANCE SHEET AT 31 MARCH 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Investments	8	-	-
Creditors amounts falling due within one year	11	(7,375)	(16,449)
Total assets less current liabilities		(7,375)	(16,449)
Creditors amounts falling due after more than one year	12	(92,608)	(79,594)
Net liabilities		(99,983)	(96,043)
Capital and reserves			
Called up share capital	14	147,367	147,367
Shares to be issued	14	1,340	1,340
Share premium account	15	30,959	30,959
Capital redemption reserve	15	19	19
Profit and loss account	15	(279,668)	(275,728)
Shareholders' deficit	17	(99,983)	(96,043)

The financial statements were approved by the Board of Directors on 30/4/ 2008

A Brenner - Director



The accompanying accounting policies and notes form an integral part of these financial statements

V2 MUSIC (HOLDINGS) LIMITED**CASH FLOW STATEMENT**

For the year ended 31 MARCH 2007

	Note	2007 £'000	2006 £'000
Net cash outflow from operating activities	18	(10,120)	(9,014)
Returns on investments and servicing of finance			
Interest received		359	141
Interest paid		(31)	(102)
Finance lease interest paid		-	-
Net cash inflow from returns on investments and servicing of finance		328	39
Taxation		(320)	(36)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(546)	(77)
Purchase of intangible fixed assets		-	(1,078)
Purchase of investments		-	(131)
Proceeds from sale of tangible fixed assets		2,765	-
Net cash inflow from capital expenditure and financial investment		2,219	(1,286)
Acquisitions and disposals			
Net cash consideration paid/received on acquisitions and disposals of subsidiaries		-	(2,349)
Proceeds from sale of subsidiary		788	-
Net cash inflow/(outflow) from acquisitions and disposals		788	(2,349)
Financing			
New loan finance		9,268	13,238
Net cash inflow from financing		9,268	13,238
Increase in cash		2,163	592

The accompanying accounting policies and notes form an integral part of these financial statements

V2 MUSIC (HOLDINGS) LIMITED

OTHER PRIMARY STATEMENTS

For the year ended 31 MARCH 2007

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2007	2006
	£'000	£'000
Loss for the year attributable to the group	(11,881)	(9,232)
Impact of adoption of FRS 25 from 1 April 2005	-	(3,489)
Currency translation differences on foreign currency net investments	(409)	275
Total gains and losses recognised since last financial statements	<u>(12,290)</u>	<u>(12,446)</u>

The accompanying accounting policies and notes form an integral part of these financial statements

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

1 TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and loss on ordinary activities before taxation is attributable to the principal activities as follows

	Year ended 31 March 2007		
	Turnover	Profit/(loss) before interest and taxation	Net assets/ (liabilities)
	£'000	£'000	£'000
United Kingdom	13,520	(7,913)	(25,097)
Rest of Europe	12,125	26	(24,972)
North America	2,842	1,197	(36,900)
Rest of the world	1,080	513	(5,291)
	<u>29,567</u>	<u>(6,177)</u>	<u>(92,260)</u>

	Year ended 31 March 2006		
	Turnover	Profit/(loss) before interest and taxation	Net assets/ (liabilities)
	£'000	£'000	£'000
United Kingdom	20,076	(8,130)	7,795
Rest of Europe	17,784	52	(30,184)
North America	9,697	3,866	(53,340)
Rest of the world	-	-	(2,839)
	<u>47,557</u>	<u>(4,212)</u>	<u>(78,568)</u>

The loss on ordinary activities before taxation is stated after (crediting)/charging

	2007 £'000	2006 £'000
<i>Auditors' remuneration</i>		
Parent Company	20	20
Group	20	20
Audit of subsidiaries	115	177
<i>Non-audit services</i>		
Tax compliance	10	17
<i>Depreciation and amortisation</i>		
Tangible fixed assets owned	109	898
Intangible assets	914	706
<i>Operating leases</i>		
Land and buildings	235	208
Hire of plant and machinery under operating leases	5	131
Exchange gain on settled transactions	(500)	(1)
Profit on sale and termination of businesses	<u>(788)</u>	<u>(5,635)</u>

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION (CONTINUED)

On 2 February 2007, the group disposed of its shareholdings in its Benelux operations, comprising V2 Records Nederland BV and V2 Records Belgium B V B A, for £0.8m. The combined effect of the disposal was a profit of £0.8m.

V2 Records Nederland BV and V2 records Belgium B V B A did not contribute materially to the group's result or cash flows for the year.

2 INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £'000	2006 £'000
Amounts payable to parent undertaking	5,702	4,842
Interest accrued on preference shares classified as debt	208	208
Amounts payable on other loans	266	98
	<u>6,176</u>	<u>5,148</u>

3 INTEREST RECEIVABLE AND SIMILAR INCOME

	2007 £'000	2006 £'000
Receivable on bank deposits	359	140
Foreign exchange gain on settled transactions	500	1
	<u>859</u>	<u>141</u>

4 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows

	2007 £'000	2006 £'000
Wages and salaries	6,951	6,972
Social security costs	529	686
Other pension costs	153	48
	<u>7,633</u>	<u>7,706</u>

The average number of employees of the company during the year was

	2007 Number	2006 Number
Marketing and promotion	41	65
Administration	71	91
	<u>112</u>	<u>156</u>

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

DIRECTORS AND EMPLOYEES (CONTINUED)

Remuneration in respect of directors was as follows

	2007 £'000	2006 £'000
Emoluments	304	395
Pension contributions to money purchase pension schemes	-	-
	<u>304</u>	<u>395</u>

The amounts set out above include remuneration in respect of the highest paid director as follows

	2007 £'000	2006 £'000
Emoluments	<u>231</u>	<u>219</u>

5 TAX ON LOSS ON ORDINARY ACTIVITIES

The tax charge is based on the loss for the year and represents

	2007 £'000	2006 £'000
United Kingdom corporation tax at 30% (2006 30%)	-	-
Deferred tax (note 15)	-	-
Overseas tax	320	170
Total current tax	<u>320</u>	<u>170</u>

Factors affecting the tax charge for period

Loss for the year	(11,881)	(9,219)
The tax assessed for the period is higher than the standard rate of corporation tax in the United Kingdom 30% (2006 30%)	(3,564)	(2,766)

Effect of

Expenses not deductible for tax purposes	-	62
Capital allowances for the period in of depreciation	-	24
Utilisation of tax losses	3,564	2,680
Unrelieved foreign tax suffered	320	170
Other short term timing differences	-	-
Current tax charge for period	<u>320</u>	<u>170</u>

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

6 INTANGIBLE FIXED ASSETS

GROUP

	Goodwill (as restated) £'000	Recorded product catalogues and similar rights and assets £'000	Total £'000
Cost			
At 1 April 2006	2,965	9,356	12,321
Prior year adjustment (note 16)	(1,500)	-	(1,500)
At 1 April 2006 (as restated)	1,465	9,356	10,821
Additions	324	16	340
Exchange movements	(232)	(1,236)	(1,468)
At 31 March 2007	1,557	8,136	9,693
Amortisation			
At 1 April 2006	170	536	706
Charge in year	90	824	914
Exchange movements	(1)	(6)	(7)
At 31 March 2007	259	1,354	1,613
Net book amount at 31 March 2007	1,298	6,782	8,080
Net book amount at 31 March 2006 (as restated)	1,295	8,820	10,115

The company has no intangible fixed assets

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

7 TANGIBLE FIXED ASSETS

GROUP

	Leasehold land and buildings £'000	Computer equipment £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 April 2006	1,271	3,433	1,261	5,965
Additions	208	129	211	548
Disposals	(526)	-	(4)	(530)
Fully depreciated assets written off	(321)	(1,839)	(850)	(3,010)
Exchange difference	(6)	(15)	(6)	(27)
At 31 March 2007	626	1,708	612	2,946
Depreciation				
At 1 April 2006	563	3,349	1,235	5,147
Charge for the year	56	39	14	109
Depreciation on disposals	-	-	(4)	(4)
Fully depreciated assets written off	(321)	(1,839)	(847)	(3,003)
Exchange difference	3	11	7	21
At 31 March 2007	301	1,564	405	2,270
Net book amount at 31 March 2007	325	144	207	676
Net book amount at 31 March 2006	708	84	26	818

The company has no tangible fixed assets

8 FIXED ASSET INVESTMENTS

GROUP

	2007 £'000	2006 £'000
Cost and net book value Investments	509	569

The joint ventures and participating interests of V2 Music (Holdings) Limited as at 31 March 2007 were as follows

	Percentage of ordinary shares owned	Country of incorporation
Indirectly held		
Delicious Digital	15%	United Kingdom
Wichita Recordings Ltd	25%	United Kingdom

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

FIXED ASSET INVESTMENTS (CONTINUED)

The principal activities of Delicious Digital Limited are the writing and production of bespoke music for radio and advertising agencies

On 29 June 2005, the group purchased a 25% equity stake in Wichita Recordings Ltd, an independent record label

The group does not have significant influence over the operating and financial policies of its investments. Consequently the group does not believe that it is appropriate to equity account for its share of results. The investments have been accounted for at cost.

COMPANY

	Shares in Group undertakings £'000	Loans to Group undertakings £'000	Total £'000
Cost			
At 1 April 2006	57	193,293	193,350
Adjustment to opening position	-	(10,603)	(10,603)
Additional funding during the year	-	9,268	9,268
At 31 March 2007	<u>57</u>	<u>191,958</u>	<u>192,015</u>
Provisions			
At 1 April 2006	57	193,293	193,350
Adjustment to opening position	-	(10,603)	(10,603)
Provided in year	-	9,268	9,268
At 31 March 2007	<u>57</u>	<u>191,958</u>	<u>192,015</u>
Net book value			
At 31 March 2007	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2006	<u>-</u>	<u>-</u>	<u>-</u>

In view of the recent trading performance of the group, the directors consider the value of loans to and investments in subsidiary undertakings to be £nil. Adjustments have been made to the cost and provision against loans to group undertakings that were incorrectly disclosed in the prior year. There is no effect on the Net Book amount at 31 March 2006 or 31 March 2007.

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

FIXED ASSET INVESTMENTS (CONTINUED)

The principal subsidiaries of V2 Music (Holdings) Limited as at 31 March 2007 were as follows

Company	Percentage of ordinary shares owned	Country of incorporation
Directly held		
V2 Music Group Limited	100%	England and Wales
V2 Music Publishing (Holdings) Ltd	100%	England and Wales
V2 Holdings (USA) Inc	100%	USA
Indirectly held		
V2 Music Limited	100%	England and Wales
V2 Matrix Limited	100%	England and Wales
V2 TV Limited	100%	England and Wales
V2 Records International Limited	100%	England and Wales
V2 Music Publishing Limited	100%	England and Wales
V2 Records Inc	100%	USA
Gee Street Records Inc	100%	USA
V2 Music Publishing Holdings (USA) Inc	100%	USA
Emusica Entertainment Group Inc	88%	USA
V2 Records (Canada) Inc	100%	Canada
V2 Scandinavia AB	100%	Sweden
V2 Records Norge AS	100%	Norway
V2 Records GmbH	100%	Germany
V2 Music (France) Sarl	100%	France
V2 Music Publishing (France) Sarl	100%	France
V2 Records Italy Srl	100%	Italy
V2 Music Publishing Italy Srl	100%	Italy
V2 Records Japan Inc	100%	Japan
V2 Music Australia Pty Limited	100%	Australia
V2 Records Spain SL	100%	Spain
V2 Records Hellas SA	65%	Greece

All the subsidiaries are involved in the production and sale of phonographic records, or the acquisition and exploitation of copyrights in songs

V2 Music (Holdings) Limited, funds entities with minority shareholders. These are usually new enterprises whose outlook is uncertain and where the minority shareholders are not expected to contribute to the losses, consequently, the full loss of each of these entities for the year has been included in the group's results for the year and the full liabilities in the group balance sheet

V2 Music (Holdings) Limited has no significant influence over the operating and financial policies of V2 Records Hellas SA, as it does not have

- Representation on the board of the entity,
- Any involvement in policy or strategic decisions of the entity,
- Regular financial information from the entity, or
- Regular contact or correspondence with the entity

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

FIXED ASSET INVESTMENTS (CONTINUED)

Accordingly the directors conclude that V2 music (Holdings) Limited fails FRS9's criteria as to active involvement influence in the direction of V2 Records Hellas SA

In addition the directors conclude that V2 Music (Holdings) Limited does not have a participating interest in V2 Records Hellas SA as the interest in that entity is not beneficial to V2 Music (Holdings) Limited in terms of contribution to activities through control or influence of V2 Records Hellas SA

As a result, V2 Records Hellas SA has not been consolidated into these financial statements

See note 26 for details of post balance sheet events

9 STOCKS

Group

	Group 2007 £'000	2006 £'000
Finished goods and goods for resale	374	275

10 DEBTORS

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Trade debtors	7,964	-	9,321	-
Other debtors	3,665	-	3,769	-
	11,629	-	13,090	-

11 CREDITORS- AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Trade creditors	4,654	-	4,155	-
Amounts owed to subsidiary undertakings	-	-	-	9,282
Other creditors including taxation and social security	1,051	-	3,851	-
Preference shares classified as debt	7,375	7,375	7,167	7,167
Deferred consideration	180	-	2,667	-
Accruals and deferred income	10,508	-	10,859	-
	23,768	7,375	28,699	16,449

No interest is payable on amounts owed to subsidiary undertakings

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

12 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Amounts owed to parent undertaking	95,281	92,608	79,594	79,594
Amounts falling due				
Between one and two years	95,281	92,608	79,594	79,594
Between two and five years	-	-	-	-
	95,281	92,608	79,594	79,594

The amounts owed to group and related undertakings have been lent to the group under a facility agreement dated 28 March 2002, which forms part of the financial restructuring exercise that took place during the year. They are repayable on the 31 December 2008.

Interest is accruing on these loans at LIBOR plus 2%, and is capitalised to form part of the loans. All interest accrued will however be payable upon written notice provided by the lenders. This changed during the year to 31 March 2005, as previously the interest became payable eighteen months after the first draw down, whereupon it was payable quarterly in arrears.

The amounts owed to related parties are secured over all the property and assets of the company and the following subsidiaries: V2 Music Publishing (Holdings) Limited, V2 Music Publishing Limited.

13 DEFERRED TAXATION

A deferred tax asset of £72.8m (2006: £69.2m) relating to carried forward tax losses and other timing differences has not been recognised in view of the inherent surrounding its recoverability.

	2007 £'000	2006 £'000
Depreciation in excess of capital allowances	813	813
Unrelieved tax losses	71,956	68,392
	72,769	69,205

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

14 CALLED UP SHARE CAPITAL AND SHARES TO BE ISSUED

	2007 £'000	2006 £'000
Authorised		
2,900,524,571 A ordinary shares of £0 0025p each	7,251	7,251
9,128,868 deferred shares of £0 0025p each	23	23
B ordinary shares of £0 0025p each	140,146	140,146
6% cumulative preference shares of 0 0025p each	9	9
	<u>147,429</u>	<u>147,429</u>
Allotted, called up and fully paid		
2,888,387,390 A ordinary shares of 0 0025p each	7,221	7,221
56,058,294,026 B ordinary shares of 0 0025p each	140,146	140,146
6% cumulative preference shares of 0 0025p each	9	9
	<u>147,376</u>	<u>147,376</u>
Shares to be issued	<u>1,340</u>	<u>1,340</u>

The company's ordinary shares are classified in the balance sheet as share capital (2006 share capital) and the company's preference shares are classified as creditors due in less than one year (2006 creditors due in less than one year)

The A and B ordinary shares rank *pari passu*. They are entitled to a distribution of profits after payment of the preference (see below)

Deferred shares

The deferred shares have no rights to a distribution of profits. On a winding up the deferred shares rank last and the holders would be entitled to a par of the value. The deferred shares do not carry any voting rights.

Preference shares

The preference shares are redeemable on the company giving the preference shareholders not less than one and not more than 3 months notice. On a winding up they would rank first and would be entitled to subscription price and accrued dividend. The preference shares do not carry any voting rights. The dividend in respect of the year ended 31 March 2007 amounted to £208,200 (2006 £208,200). Interest accrues on the subscription price of the shares (£1) at a rate of 6% per annum.

Shares to be issued

In May 1998, a subsidiary of the group issued 49,750 Sterling Warrants to acquire 123,228 A ordinary shares of the company of 0 0025p each at an exercise price of 1p per share, subject to adjustment, to holders of the Senior Discount Sterling Notes. The group at the same time issues 157,650 Dollar Warrants to acquire 74,100 A ordinary shares of the company at an exercise price of 1p per share, subject to adjustment, to the holders of the Senior Discount Dollar Notes. The notes to which these related were changed to the Guaranteed Exchangeable Notes due 2012. During the year ended 31 March 2002 as part of the financial restructuring, 38,100 of the Sterling Warrants and 151,900 of the Dollar Warrants were cancelled as they were repurchased by the company, for cash consideration of £174,365 and £106,799 respectively. This led to a movement in reserves of £11,203,357. In accordance with Financial Reporting Standard 4 Capital Instruments the net proceeds of issue of the remaining Warrants (£1,340,478) have been included within shareholders funds as shares to be issued.

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

Employee share options

All options lapsed in the year to 31 March 2007

15 CAPITAL AND RESERVES

Group

	Share capital £'000	Shares to be issued £'000	Capital redemption reserve £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2006	147,367	1,340	19	30,959	(259,214)	(79,529)
Retained loss for the year	-	-	-	-	(11,881)	(11,881)
Exchange adjustments	-	-	-	-	(409)	(409)
At 31 March 2007	147,367	1,340	19	30,959	(271,504)	(91,819)

Company

	Share capital £'000	Shares to be issued £'000	Capital redemption reserve £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2006	147,367	1,340	19	30,959	(275,728)	(96,043)
Retained loss for the year	-	-	-	-	(4,567)	(4,567)
Exchange adjustments	-	-	-	-	627	627
At 31 March 2007	147,367	1,340	19	30,959	(279,668)	(99,983)

The capital redemption reserve in the group and the company was created following the repurchase by the company of its deferred shares as part of the financial restructuring that took place on 28 March 2002

16 EQUITY MINORITY INTERESTS

	Group £'000
At 1 April 2006	961
Prior year adjustment	(1,500)
At 1 April 2006	(539)
Exchange movements	7
Proportion of loss on ordinary activities after taxation	91
At 31 March 2007	(441)

A prior year adjustment has been recognised with respect to the equity minority interest recognised in the balance sheet at 31 March 2006. An amount was incorrectly included capitalised as goodwill and recognised as equity minority interest during that period. There is no effect to the profit and loss account for the year ended 31 March 2006 or 31 March 2007.

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

Group

	2007 £'000	2006 £'000
Loss for the financial year	(11,881)	(9,232)
Impact of adoption of FRS 25 from 1 April 2005	-	(6,959)
Foreign exchange (loss)/gain	(409)	275
Net increase in shareholders' deficit	(12,290)	(15,916)
Shareholders' deficit at 1 April 2006	(79,529)	(63,613)
Shareholders' deficit at 31 March 2007	(91,819)	(79,529)

Company

	2007 £'000	2006 £'000
Loss for the financial year	(4,567)	(25,545)
Impact of adoption of FRS 25 from 1 April 2005	-	(6,959)
Foreign exchange gain	627	-
Net increase in shareholders' deficit	(3,940)	(32,504)
Shareholders' deficit at 1 April 2006	(96,043)	(63,539)
Shareholders' deficit at 31 March 2007	(99,983)	(96,043)

18 NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2007 £'000	2006 £'000
Operating profit	(9,150)	(9,847)
Depreciation and amortisation	1,026	898
(Increase)/decrease in stock	(99)	31
Decrease in debtors	1,461	857
Decrease in creditors	(3,358)	(953)
Net cash outflow from operating activities	(10,120)	(9,014)

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

19 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2007 £'000	2006 £'000
Increase in cash in the year	2,163	592
Net borrowings raised	(9,268)	(13,238)
Change in net debt resulting from cash flows	(7,105)	(12,646)
Non cash movement		
On adoption of FRS 25 classification of preference shares as debt	-	(6,959)
Accrued dividends on preference shares	(208)	(208)
Foreign exchange movement on loans	(716)	-
Capitalised interest on loans	(5,702)	(4,838)
Movement in net debt in the year	(13,731)	(24,651)
Net debt at 1 April 2006	(83,403)	(58,752)
Net debt at 31 March 2007	(97,134)	(83,403)

20 ANALYSIS OF CHANGES IN NET DEBT

	At 1 Apr 2006 £	Non cash movement	Cash flow £	At 31 Mar 2007 £
Cash in hand	3,358	-	2,163	5,521
Debt due after more than one year	(79,594)	(6,418)	(9,268)	(95,280)
Preference shares classified as debt	(7,167)	(208)	-	(7,375)
	(83,403)	(6,626)	(7,105)	(97,134)

21 CAPITAL COMMITMENTS

The company had no capital commitments at 31 March 2007 or 31 March 2006

22 CONTINGENT ASSETS/LIABILITIES

The directors have not been notified of any litigation which they consider will result in any material unprovided liability of the group, either individually or in aggregate

There were no contingent liabilities at 31 March 2007 or 31 March 2006

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2007

23 LEASING COMMITMENTS

Operating lease payments amounting to £240,000 (2006 £269,000) are due within one year. The leases to which these amounts relate expire as follows:

	2007		2006	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
In one year or less	-	-	122	19
Between one and five years	235	5	76	52
In five years or more	-	-	-	-
	<u>235</u>	<u>5</u>	<u>198</u>	<u>71</u>

24 TRANSACTIONS WITH DIRECTORS /AND OTHER RELATED PARTIES

The company has taken advantage of the exemption in Financial Reporting Standard No 8 "Related party disclosures" and has not disclosed transactions with group undertakings.

There are no other related party transactions.

25 ULTIMATE PARENT COMPANY

At 31 March 2007 the ultimate parent undertaking was Morgan Stanley & Co Incorporated, New York, USA by virtue of its majority shareholding. Its accounts can be obtained from 1585 Broadway, New York New York, 10036 USA.

26 POST BALANCE SHEET EVENTS

On 25 September 2007, V2 Music Group Limited and its subsidiaries was sold to Centenary Holdings Limited, a subsidiary of Vivendi SA.

On 15 October 2007, the 100% shareholding in V2 Holdings (USA) Inc and its subsidiaries was transferred to Morgan Stanley & Co at market value.