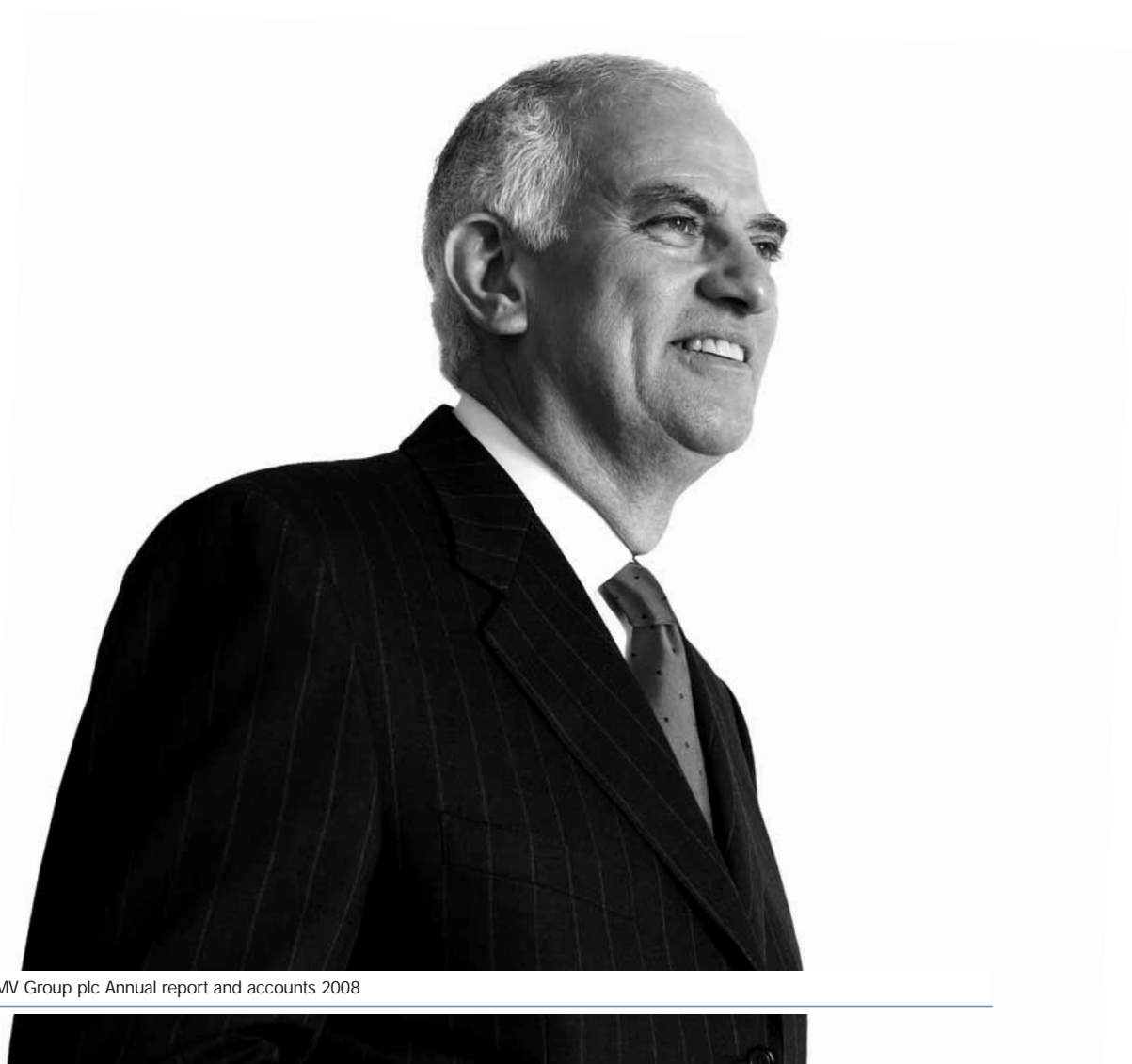


Chairman's statement

"Recognising the structural changes taking place in our markets, we now have a clear vision of how to grow in new channels and exploit alternative formats to re-balance our business."



In March 2007, we began the journey to transform the performance of the Group, and outlined a three-year plan to accomplish this. I am pleased to report that, at the end of the year, very good progress has been made in our efforts to protect and grow the businesses, while saving significant costs.

Our main focus in 2007/08 has been the revitalisation of our stores business. A year ago I stated that our brands would strengthen their market positions, and this is being achieved emphatically as trading has materially improved. We have also made good progress with our online initiatives. Recognising the structural changes taking place in our markets, we now have a clear vision of how to grow in new channels and exploit alternative formats to re-balance our business. In addition, we have exploited Group synergies and begun to deliver the cost savings that underpin our medium-term financial aspirations.

Our strong cash generation during the year, combined with the disposal of HMV Japan for £70.6m, equivalent to 9.0x 2007 EBITDA, have reduced our borrowings. The sale of HMV Japan has simplified the Group, enabling us to focus our efforts on those markets where we have a clear leadership position.

Results for the Group for the year ended 26 April 2008 saw an increase in profit before tax from continuing operations of £11.4m to £56.6m, on revenue which grew by 11.3% to £1,874.9m. As a result of strong cash generation, we virtually eliminated our year end net debt by £130.4m to £0.2m. Our earnings per share rose by 22.8% to 10.1p and the Board has recommended a final dividend of 5.6p per Ordinary Share. Together with the interim dividend of 1.8p per share, the total dividend for the year is 7.4p, the same as last year.

We have added to the capability of the Group Board by introducing new talent. This year we appointed Gerry Johnson, Managing Director of Waterstone's, who brings his retailing experience, as an Executive Director. Philip Rowley, a former Chairman and CEO of AOL Europe, was appointed as a Non-Executive Director in September 2007, and has a combination of skills and experiences which are aligned with our technology initiatives.

When I became Chairman at the start of 2006, there were three formidable challenges facing the Group: finding and installing new executive leadership, improving the effectiveness of the Board, and reversing the decline in our businesses.

Almost three years on, I am very pleased with our achievements. We have an executive leadership team which is not only capable of developing creative ways to meet the needs of our markets, but is relentless in executing those plans; the Group Board is more effective in its role of overseeing the implementation of strategic initiatives and monitoring the performance of our businesses; and the numbers tell the story of the substantial turnaround underway in the performance of both businesses, in absolute as well as relative terms.

As the foundations are firmly in place, it is an ideal time for me to pursue new interests. So, I will be stepping down as Chairman of the Group at the AGM on 5 September 2008. The Board is in the process of searching for my successor and an announcement will be made in due course.

The Group and its businesses are in capable hands, and I have confidence that they will continue to deliver on their plans.

Carl Symon Chairman
30 June 2008

