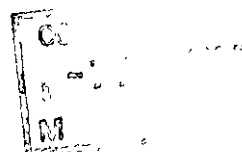


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VIRGIN RECORDS LIMITED

ACCOUNTS

31 JULY 1989



VIRGIN RECORDS LIMITED
ANNUAL REPORT AND STATEMENT OF ACCOUNTS
for the year ended 31 July 1989

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3	Report of the auditors
4	Profit and loss account
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6	Statement of source and application of funds
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VIRGIN RECORDS LIMITEDReport of the directors

The directors present their annual report and the audited accounts for the year ended 31 July 1989.

RESULTS

The results for the year are set out on page 4.

PRINCIPAL ACTIVITIES

The company is engaged in the production of popular music by exploiting the copyright of recordings and videos relating to rights obtained through contracts made with artistes.

BUSINESS REVIEW

The company's turnover was £58,057,695 for the year. This achievement was a result of establishing new artistes and continuing the development of existing signings. Both the level of business and the year end financial position were satisfactory and the directors expect that the present level of activity will be sustained in the foreseeable future.

DIVIDENDS

Dividends paid and proposed were £150,000 (1988 - £7,137,709).

DIRECTORS

The directors of the company during the year were:

R C N Branson
K M Berry
J S Draper
S G Lewis
J Webster
T Lyster
S M Macleod
W R Richardson

None of the directors had an interest in the shares of the company at 31 July 1989 other than as a result of an interest in the shares of the ultimate holding company, Virgin Music Group Limited. The interests of Mr Branson, Mr Berry and Mr Draper in the ultimate holding company are shown in that company's accounts. The remaining directors of the company did not have an interest in the shares of Virgin Music Group Limited at 31 July 1989.

VIRGIN RECORDS LIMITED

Report of the directors

POLITICAL AND CHARITABLE CONTRIBUTIONS

There were no contributions made for political or charitable purposes.

MOVEMENTS IN FIXED ASSETS

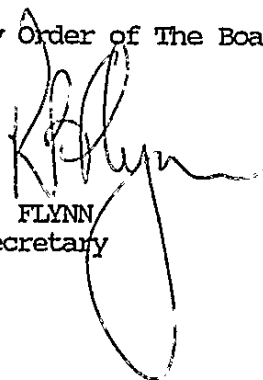
The movements in fixed assets during the period are set out in note 10 to the accounts.

AUDITORS

As at 1 January 1990 our auditors changed the name under which they practise to KPMG Peat Marwick McLintock, and accordingly have signed their report in their new name.

In accordance with Section 384 of the Companies Act 1985 a resolution to reappoint the auditors, KPMG Peat Marwick McLintock, will be proposed at the annual general meeting.

By Order of The Board



R FLYNN
Secretary

120 Campden Hill Road
London W8 7AR

VIRGIN RECORDS LIMITED

REPORT OF THE AUDITORS

TO THE MEMBERS OF VIRGIN RECORDS LIMITED

We have audited the accounts set out on pages 4 to 16 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31 July 1989 and of its result and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

1 Puddle Dock
Blackfriars
LONDON EC4V 3PD

KPMG Peat Marwick McLintock
KPMG Peat Marwick McLintock
Chartered Accountants

24 January, 1990

VIRGIN RECORDS LIMITEDProfit and loss accountfor the year ended 31 July 1989

	<u>Notes</u>	Year ended 31 July <u>1989</u> £	Year ended 31 July <u>1988</u> £
Turnover	1f) & 2	58,057,695	56,127,301
Cost of sales	1a)	(33,901,045)	(31,192,393)
Gross profit		24,156,650	24,934,908
Prime costs	1a)	(15,027,530)	(13,789,435)
Administrative expenses		(6,700,989)	(7,094,709)
Operating profit		2,428,131	4,050,764
Other interest receivable and similar income	3	880,338	130,784
Interest payable and similar charges	4	(2,710,951)	(2,217,904)
Income from shares in group companies		150,000	2,460,000
Profit on ordinary activities before tax	5	747,518	4,423,644
Tax on profit on ordinary activities	6	(982,882)	(727,549)
(Loss)/profit for the financial period		(235,364)	3,696,095
Dividend	7	(150,000)	(7,137,709)
Retained (loss) for the financial period		(385,364)	(3,441,614)
Retained profit brought forward		4,286,431	7,728,045
Retained profit carried forward		<u>3,901,067</u>	<u>4,286,431</u>

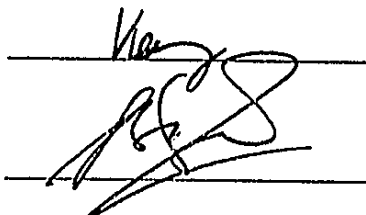
The notes on pages 7 to 16 form part of these accounts.

VIRGIN RECORDS LIMITEDBalance sheet at 31 July 1989

	<u>Notes</u>	£	31 July 1989 £	31 July 1988 £
FIXED ASSETS				
Tangible assets	10		4,476,136	1,022,456
Investments	11		5,819,827	331,133
			<hr/>	<hr/>
			10,295,963	1,353,589
CURRENT ASSETS				
Stocks	12	1,019,333		1,329,380
Debtors	13	49,503,153		43,680,633
Cash at bank and in hand		4,663,801		3,319,340
		<hr/>		<hr/>
		55,186,287		48,329,353
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR				
	14	(60,510,805)		(45,380,403)
		<hr/>		<hr/>
NET CURRENT (LIABILITIES)/ASSETS			(5,324,518)	2,948,950
			<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES			4,971,445	4,302,539
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
	15		(1,049,052)	-
PROVISIONS FOR LIABILITIES AND CHARGES				
	16		(11,326)	(6,108)
			<hr/>	<hr/>
			3,911,067	4,296,431
			<hr/>	<hr/>
CAPITAL AND RESERVES				
Called up share capital	17	10,000	10,000	10,000
Profit & loss account		3,901,067	3,901,067	4,286,431
		<hr/>	<hr/>	<hr/>
			3,911,067	4,296,431
			<hr/>	<hr/>

The notes on pages 7 to 16 form part of these accounts.

The accounts on pages 4 to 16 were approved by the Board of Directors on 24 January 1990 and signed on its behalf by:



 DIRECTORS

VIRGIN RECORDS LIMITED
Statement of source and application of funds
for the year ended 31 July 1989

		Year ended 31 July 1989	Year ended 31 July 1988
	£	£	£
SOURCE OF FUNDS			
Profit before tax		747,518	4,423,644
Adjustments for items not involving the movement of funds:			
Depreciation of tangible fixed assets	431,097		308,570
(Profit)/loss on sale of tangible fixed assets	(141,177)		23,110
Hire purchase interest payable	-		10,959
		<hr/> 289,920	<hr/> 342,639
Total generated from operations		1,037,438	4,766,283
Funds from other sources			
Sale proceeds of fixed assets	1,153,439		191,560
Increase in creditors due after more than one year	1,049,052		-
Debenture loan	-		400,000
		<hr/> 2,202,491	<hr/> 591,560
		<hr/> 3,239,929	<hr/> 5,357,843
APPLICATION OF FUNDS			
Investments	5,488,694		150,000
Taxation paid and group relief	1,532,979		1,745,813
Purchase of fixed assets	4,897,039		726,424
Repayment of hire purchase and finance lease creditors	301,359		91,089
Dividend paid	150,000		7,137,709
Decrease in creditors due after more than one year	-		400,000
Loan repaid	400,000		-
		<hr/> 12,770,071	<hr/> 10,251,035
(DECREASE) IN WORKING CAPITAL		<hr/> (9,530,142)	<hr/> (4,893,192)
(DECREASE) IN WORKING CAPITAL			
Stocks		(310,047)	(363,904)
Debtors		5,822,520	9,755,551
Creditors due within one year excluding taxation, dividends and overdrafts		(16,457,428)	(17,894,433)
		<hr/> (10,944,955)	<hr/> (8,502,786)
Movements in net liquid funds:			
Bank and cash balances and overdrafts		1,414,813	3,609,594
		<hr/> (9,530,142)	<hr/> (4,893,192)

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1989

1. ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's accounts.

a) Basis of accounting

The accounts have been prepared under the historical cost convention.

The profit and loss account for the year ended 31 July 1989 has been drawn up to include costs of manufacture and distribution performed under arrangements with third parties and royalties payable to artistes within cost of sales, and costs associated with artiste development and other selling costs within prime costs, as the directors consider that this presentation is more appropriate to the company's business than that adopted in prior periods. Comparative figures for the year ended 31 July 1988 have been restated in this format.

Group accounts have not been prepared as Virgin Records Limited is a wholly owned subsidiary of another U.K. company.

b) Depreciation

Depreciation of fixed assets is provided on a straight line basis applied to original cost at rates estimated to write off each asset over its remaining useful life. For the purposes of calculating depreciation, the effective useful lives of the classes of assets currently held by the company are as follows:

Freehold property	50 years
Motor vehicles	4 years
Plant and fixtures	4 years

c) Stocks

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

d) Foreign exchange

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Assets and liabilities expressed in foreign currencies are translated to sterling at the exchange rate ruling at the balance sheet date.

e) Deferred taxation

Deferred taxation, using the liability method, is provided at the rates of corporation tax which are expected to apply when the tax is estimated to be payable on all timing differences except those which are considered will continue for the foreseeable future.

f) Turnover

Turnover represents royalties receivable and amounts receivable for goods and services supplied to outside customers, excluding value added tax.

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1989

1. ACCOUNTING POLICIES (contd...)

g) Royalties

Royalties receivable and payable are included on an accruals basis calculated on sales arising during the accounting year. Royalty advances paid are carried forward to the extent that it is estimated that sufficient future royalties or income will be earned for recoupment of such advances. Any unrecouped royalty advances received under licensee agreements are recognised as income in the period in which such agreements expire.

h) Recording, production and developments costs

Recording, production and development costs in addition to the catalogue of recorded music are written off as incurred.

i) Leased plant and equipment

Where plant and equipment is acquired by leasing arrangements and hire purchase agreements which give rights approximating to ownership the assets are capitalised at an amount representing the equivalent outright purchase price of such assets and included in tangible assets. The capital element of future rentals is treated as a liability and the interest element is charged to the profit and loss account over the period of the leases in proportion to the balances outstanding.

j) Pensions

The company operates defined contribution pension schemes for its employees and executives. The assets of the schemes are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the company to the funds.

2. TURNOVER

	Year ended 31 July 1989 £	Year ended 31 July 1988 £
Analysis of turnover by geographical area:		
United Kingdom	36,318,740	37,923,052
Rest of Europe	13,943,069	12,396,870
North America	3,214,391	2,675,918
Asia and Australasia	3,870,873	2,855,736
Rest of the World	710,622	275,725
	<hr/>	<hr/>
	58,057,695	56,127,301
	<hr/>	<hr/>
	58,057,695	56,127,301

VIRGIN RECORDS LIMITED

Notes to the accounts

for the year ended 31 July 1989

3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable comprises the following:

	Year ended 31 July 1989 £	Year ended 31 July 1988 £
Interest receivable from group companies	771,312	-
Other interest	109,026	130,784
	<u>880,338</u>	<u>130,784</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

Interest payable comprises the following:

	Year ended 31 July 1989 £	Year ended 31 July 1988 £
Interest on hire purchase agreements	45,215	10,959
Interest on other loans	2,665,736	110,264
Interest payable to group companies	-	2,096,681
	<u>2,710,951</u>	<u>2,217,904</u>

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on ordinary activities before tax
is stated after charging:

	Year ended 31 July 1989 £	Year ended 31 July 1988 £
Depreciation of tangible fixed assets	431,097	308,570
Hire of plant and machinery	9,015	13,582
Auditors' remuneration	38,500	40,400
Directors' emoluments	610,475	342,199
Distribution costs	2,032,490	2,179,068
Interest on hire purchase and finance lease agreements	<u>85,359</u>	<u>-</u>

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1989

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge is comprised of:

	Year ended 31 July 1989 £	Year ended 31 July 1988 £
Corporation tax @ 35% (1988 : 35%) on the profit for the period	238,786	724,603
Adjustment to prior years	738,878	-
Overseas taxation	493,437	267,539
Double tax relief	(493,437)	(267,539)
Deferred taxation	5,218	2,946
	<hr/>	<hr/>
	982,882	727,549
	<hr/>	<hr/>

7. DIVIDEND

	Year ended 31 July 1989 £	Year ended 31 July 1988 £
Interim dividends paid	150,000	4,677,709
Final dividend proposed	-	2,460,000
	<hr/>	<hr/>
	150,000	7,137,709
	<hr/>	<hr/>

8. EMPLOYEE INFORMATION

a) The average number of persons employed by the company during the year was as below:

	Year ended 31 July 1989	Year ended 31 July 1988
Selling	48	38
Production	65	61
Administration	67	67
	<hr/>	<hr/>
	180	166
	<hr/>	<hr/>

b) The aggregate payroll costs of these persons were as follows:

	Year ended 31 July 1989 £	Year ended 31 July 1988 £
Wages and salaries	3,635,141	2,778,781
Social security costs	334,955	431,550
Other pension costs	7,059	-
	<hr/>	<hr/>
	3,977,155	3,210,331
	<hr/>	<hr/>

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1989

8. EMPLOYEE INFORMATION (contd...)

The number of employees of the company, excluding directors, whose emoluments, excluding pension contributions, exceeded £30,000 in the year were as follows:

	Year ended 31 July 1989	Year ended 31 July 1988
£30,001 to £35,000	4	3
£35,001 to £40,000	5	4
£40,001 to £45,000	6	-
£45,001 to £50,000	1	-
£65,001 to £70,000	1	-

9. DIRECTORS' EMOLUMENTS

The emoluments of the directors of the company, including amounts paid to them as directors of subsidiary companies, including pension contributions, were as follows:

	Year ended 31 July 1989 £	Year ended 31 July 1988 £
For management services	685,403	418,074
Pension contributions	26,250	-
	<hr/>	<hr/>
	711,653	418,074
	<hr/>	<hr/>

Directors' emoluments, excluding pension contributions, were as follows:

Emoluments of the chairman	Nil	Nil
Emoluments of the highest paid director	191,116	87,500

The emoluments of the other directors excluding pension contributions were within the following ranges:

£ 0 to £ 5,000	1	1
£ 45,001 to £ 50,000	-	1
£ 50,001 to £ 55,000	-	1
£ 70,001 to £ 75,000	-	2
£ 75,001 to £ 80,000	1	1
£ 90,001 to £ 95,000	1	-
£ 95,001 to £100,000	2	-
£115,001 to £120,000	1	-

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1989

10. TANGIBLE FIXED ASSETS

	Freehold buildings £	Motor vehicles £	Plant & fixtures £	Total £
COST				
1 August 1988	-	809,098	797,676	1,606,774
Additions	-	1,520,536	227,196	1,747,732
Intragroup additions	2,900,000	338,803	-	3,238,803
Disposals - external	-	(1,336,795)	-	(1,336,795)
Disposals - group companies	-	(15,959)	-	(15,959)
	<hr/>	<hr/>	<hr/>	<hr/>
31 July 1989	<u>2,900,000</u>	<u>1,315,683</u>	<u>1,024,872</u>	<u>5,240,555</u>
DEPRECIATION				
1 August 1988	-	203,642	380,676	584,318
Charge for period	-	263,610	167,487	431,097
Intragroup additions	-	89,496	-	89,496
Disposals - external	-	(334,146)	-	(334,146)
Disposals - group companies	-	(6,346)	-	(6,346)
	<hr/>	<hr/>	<hr/>	<hr/>
31 July 1989	<u>-</u>	<u>216,256</u>	<u>548,163</u>	<u>764,419</u>
NET BOOK VALUE				
31 July 1989	<u>2,900,000</u>	<u>1,099,427</u>	<u>476,709</u>	<u>4,476,136</u>
31 July 1988	<u>-</u>	<u>605,456</u>	<u>417,000</u>	<u>1,022,456</u>

Year ended
31 July 1989
£

Year ended
31 July 1988
£

Included in tangible fixed assets are assets acquired under hire purchase and finance lease agreements as follows:

Cost	1,268,503	98,099
Depreciation	198,912	51,206
	<hr/>	<hr/>
Net book value	<u>1,069,591</u>	<u>46,893</u>
Depreciation charge for the period	<u>176,854</u>	<u>33,064</u>

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1989

11. INVESTMENTS

a) SHARES IN GROUP COMPANIES

	£
Cost less amounts written off at 1 August 1988	331,133
Additions	5,488,694
Cost less amounts written off at 31 July 1989	<u>5,819,827</u>

The additions primarily represent the cost of purchase of the minority interest in Siren Records Limited and subscription for additional share capital issued by Siren Records Limited and Charisma Records Limited.

b) PRINCIPAL SUBSIDIARIES

The principal subsidiaries of Virgin Records Limited are as follows:

Subsidiary	Interest %	Nature of Business
10 Records Limited	100	The production of popular music
Charisma Records Limited	100	The production of popular music
Circa Records Limited	75	The production of popular music
Siren Records Limited	100	The production of popular music
Virgin Classics Limited	100	The production of classical music
Virgin Music Publishers Limited	100	The publishing of popular music
Virgin Overseas Limited	100	Holding company of overseas record and publishing companies
Virgin Studios Limited	100	Recording studios
Associated Virgin Labels Limited	100	Sales of popular music

All the above companies are incorporated in Great Britain.

The principal subsidiaries of Virgin Overseas Limited are detailed in that company's accounts.

12. STOCKS

	31 July 1989 £	31 July 1988 £
Finished goods and goods for resale	<u>1,019,333</u>	<u>1,329,380</u>

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1989

13. DEBTORS

	31 July 1989 £	31 July 1988 £
Trade debtors	20,742,271	22,744,964
Amounts due from group companies	27,205,272	19,148,270
Other debtors	1,515,868	1,787,399
Prepayments and accrued income	39,742	-
	<hr/>	<hr/>
	49,503,153	43,680,633
	<hr/>	<hr/>

Trade debtors include amounts relating to artiste advances which may not be fully recoverable within one year. It is not possible to quantify accurately such amounts.

Amounts due from group companies include £600,000 which does not fall due until after more than one year.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 July 1989 £	31 July 1988 £
Debenture loans	-	400,000
Bank loans and overdrafts	273,702	344,054
Trade creditors	13,320,806	11,629,371
Amounts due to group companies	11,647,217	32,258,346
Other creditors	33,748,073	941
Obligations under hire purchase and finance lease agreements	595,449	6,376
Corporation tax	-	555,315
Accruals and deferred income	925,558	186,000
	<hr/>	<hr/>
	60,510,805	45,380,403
	<hr/>	<hr/>

Included within other creditors are loans payable to Virgin Management Limited of £33,689,599 of which £20,869,599 is interest bearing. These loans are unsecured, repayable on demand and have been largely repaid subsequent to the year end.

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1989

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 July 1989 £	31 July 1988 £
Obligations under hire purchase and finance lease agreements	449,052	-
Other creditors	600,000	-
	<hr/>	<hr/>
	1,049,052	-
	<hr/>	<hr/>
Payments under hire purchase and finance lease agreements are due as follows:		
Year ended 30 July 1990	595,449	7,321
Year ended 30 July 1991	449,052	-
	<hr/>	<hr/>
	1,044,501	7,321
	<hr/>	<hr/>
Included in the above payments are amounts relating to finance charges of	-	945
	<hr/>	<hr/>

16. PROVISIONS FOR LIABILITIES AND CHARGES

The amounts provided for deferred taxation being the full potential liability are as follows:

	31 July 1989 £	31 July 1988 £
Accelerated capital allowances	11,326	6,108
	<hr/>	<hr/>

17. SHARE CAPITAL

	31 July 1989 £	31 July 1988 £
Authorised, allotted, called up and fully paid 10,000 ordinary shares of £1 each	10,000	10,000
	<hr/>	<hr/>

VIRGIN RECORDS LIMITED

Notes to the accounts

for the year ended 31 July 1989

18. CAPITAL EXPENDITURE APPROVED

No capital expenditure had been contracted for or approved by the directors for the company (1988 - Nil).

However, the company, in the normal course of business enters into contracts relating to product delivery from recording artistes.

19. CONTINGENT LIABILITY

Since the year end the company has given guarantees in respect of certain credit facilities held by Virgin Music Group Limited.

20. HOLDING COMPANY

The ultimate holding company at 31 July 1989 was Virgin Music Group Limited, a company incorporated in Great Britain.

For Directors use only
Not for publication

VIRGIN RECORDS LIMITED
Profit and Loss Account for the year ended 31 July 1989

	Year ended 31 July 1989	Year ended 31 July 1988
£	£	£
Sales	58,057,695	56,127,301
Cost of sales	(33,901,045)	(31,192,393)
Gross profit	<u>24,156,650</u>	<u>24,934,908</u>
Prime costs	(15,027,530)	(13,789,435)
Administrative expenses		
Salaries }		
Casual wages }	3,977,155	3,210,331
Employers NIC }		
Staff welfare	6,158	1,084
Depreciation of fixed assets	431,098	308,570
Hire of plant and equipment	9,015	13,582
(Profit)/loss on sale of fixed assets	(141,177)	23,110
Audit fees	38,500	40,400
Legal and professional	172,661	497,871
Light and heat	17,658	22,190
Rent and rates	128,317	98,417
Repairs and maintenance	68,334	77,601
Telephone, telex and facsimile	262,496	275,674
Insurance	110,998	110,754
Printing and stationery	86,754	77,211
Postage, couriers and messengers	87,616	485,554
Bank charges	9,480	7,240
Bad debts	44,163	53,085
Office expenses	297,485	160,696
Computer running costs	113,589	124,744
Computer development costs	29,662	9,439
Travel and entertaining	566,885	481,363
Motor expenses	236,878	263,620
Trade subscriptions	7,627	11,201
Charitable contributions	1,250	8,646
Sundry (income) expenses	(134,342)	66,756
Exchange losses	354,308	365,570
Management charges - Virgin Group	300,000	300,000
Management charges - Other Subsidiaries	(141,579)	-
Sales force contribution	(240,000)	-
	<u>(6,700,989)</u>	<u>(7,094,709)</u>
Interest payable	2,428,131	4,050,764
Interest receivable	(2,710,951)	(2,217,904)
	880,338	130,784
Income from shares in group companies	<u>597,518</u>	<u>1,963,644</u>
	190,000	2,460,000
Profit before tax	<u><u>747,518</u></u>	<u><u>4,423,644</u></u>