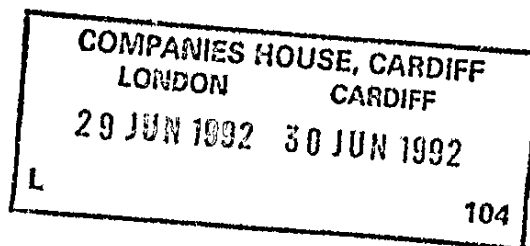


VIRGIN RECORDS LIMITED

ACCOUNTS

31 JULY 1991

COMPANY'S REGISTERED NUMBER 1070953



29.06.92
B. 679

VIRGIN RECORDS LIMITED
ANNUAL REPORT AND STATEMENT OF ACCOUNTS
for the year ended 31 July 1991

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VIRGIN RECORDS LIMITED

Report of the directors

The directors present their annual report and the audited accounts for the year ended 31 July 1991.

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 £80,130,196 for the year (1990 : £66,461,435). 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

The directors do not propose any dividends (1990 : nil).

DIRECTORS

The directors of the company during the period 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 1991 (1990 : nil) 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 shares of 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 1991 (1990 : nil).

VIRGIN RECORDS LIMITED

Report of the directors

POLITICAL AND CHARITABLE CONTRIBUTIONS

There were no contributions made for political or charitable purposes (1990 : En11).

MOVEMENT IN FIXED ASSETS

The movements in fixed assets during the year are set out in note 9 to the accounts.

AUDITORS

In accordance with section 385 of the Companies Act 1985 a resolution to reappoint the auditors, KPMG Peat Marwick, will be proposed at the next annual general meeting.

By Order of The Board

Ken By

120 Campden Hill Road
LONDON W8 7AR

~~R. FLYNN~~ K. M. DEERY
~~Secretary~~ DIRECTOR

VIRGIN RECORDS LIMITED

REPORT OF THE AUDITORS, KPMG PEAT MARWICK
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 affairs of the company at 31 July 1991 and of the profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

6 March 1992

1 Puddle Dock
Blackfriars
LONDON EC4V 3PD

KPMG Peat Marwick

KPMG Peat Marwick
Chartered Accountants
Registered Auditor

VIRGIN RECORDS LIMITEDProfit and loss accountfor the year ended 31 July 1991

	<u>Notes</u>	Year ended 31 July <u>1991</u> £	Year ended 31 July <u>1990</u> £
Turnover	1b) & 2	80,130,196	66,461,435
Cost of sales	1c)	(38,387,157)	(34,470,590)
Gross profit		41,743,039	31,990,845
Prime costs	1c)	(15,168,110)	(18,731,075)
Administrative expenses		(7,464,791)	(9,358,055)
Operating profit		19,110,138	3,901,715
Income from shares in group undertakings		-	20,000,000
Other interest receivable and similar income	3	5,774,105	5,107,790
Amounts written off investments		-	(19,265,708)
Interest payable and similar charges	4	(5,455,377)	(8,230,645)
Profit on ordinary activities before taxation	5	19,428,866	1,513,152
Tax on profit on ordinary activities	6	(6,956,599)	(782,236)
Retained profit for the financial period		12,472,267	730,916
Retained profit brought forward		3,589,990	3,901,067
Exchange adjustments	1f)	1,728,773	(1,041,993)
Retained profit carried forward		17,791,030	3,589,990
		*****	*****

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

VIRGIN RECORDS LIMITEDBalance sheet as at 31 July 1991

	<u>Notes</u>	£	31 July <u>1991</u> £	31 July <u>1990</u> £
FIXED ASSETS				
Tangible assets	9		7,536,241	6,054,791
Investments	10		5,221,754	2,091,194
			<hr/>	<hr/>
			12,757,995	8,145,985
CURRENT ASSETS				
Stocks	11	1,036,432		1,112,756
Debtors	12	39,936,711		49,500,385
Cash at bank and in hand		22,606,629		8,577,611
			<hr/>	<hr/>
		63,579,772		59,190,752
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(55,906,737)		(60,490,051)
			<hr/>	<hr/>
NET CURRENT ASSETS/(LIABILITIES)			7,673,035	(1,299,299)
			<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES			20,431,030	6,846,686
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14		(2,630,000)	(3,235,942)
PROVISIONS FOR LIABILITIES AND CHARGES	15		-	(10,754)
			<hr/>	<hr/>
			17,801,030	3,599,990
			=====	=====
CAPITAL AND RESERVES				
Called up share capital	16	10,000		10,000
Profit & loss account			17,791,030	3,589,990
			<hr/>	<hr/>
			17,801,030	3,599,990
			=====	=====

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 6th March 1992 and signed on its behalf by:



K M Berry
DIRECTOR

VIRGIN RECORDS LIMITED

Statement of source and application of funds
for the year ended 31 July 1991

		Year ended 31 July 1991 £	Year ended 31 July 1990 £
SOURCE OF FUNDS	£		
Profit before tax		19,428,866	1,513,152
Adjustments for items not involving the movement of funds:			
Depreciation of tangible fixed assets	478,470		773,315
Loss on sale of tangible fixed assets	1,147		14,487
Provision against investments	-		3,728,735
Foreign exchange adjustments	1,728,773		(1,041,993)
		2,208,390	3,474,544
Total generated from operations		21,637,256	4,987,696
Funds from other sources			
Sale proceeds of fixed assets	1,598,196		158,344
Increase in long term funding	-		2,030,000
Increase in other creditors due after more than one year	-		156,890
		1,598,196	2,345,234
		23,235,452	7,332,930
APPLICATION OF FUNDS			
Purchase of shares in group undertakings	3,130,560		102
Taxation paid and group relief	8,130,408		259,434
Purchase of fixed assets	3,559,263		2,524,801
Decrease in creditors due after more than one year	605,942		
		15,426,173	2,784,337
		7,809,279	4,548,593
		*****	*****
INCREASE/(DECREASE) IN WORKING CAPITAL			
Stocks		(76,324)	93,423
Debtors excluding recoverable taxation		(11,237,597)	520,606
Creditors due within one year excluding bank loans and overdrafts and taxation		4,887,357	(46,123)
		(6,426,564)	567,906
Movements in net liquid funds:			
Bank and cash balances		14,029,018	3,913,810
Bank loans and overdrafts		206,825	66,877
		7,809,279	4,548,593
		*****	*****

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 1991

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, and in accordance with applicable accounting standards. Group accounts have not been prepared as Virgin Records Limited is a wholly owned undertaking of another company, Virgin Music Group Limited, which is registered in England and Wales.

b) Turnover

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

c) Cost of sales and prime costs

The profit and loss account 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 this presentation to be appropriate to the company's business.

d) 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

e) Stocks

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

f) 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. Exchange differences arising on long term loans to overseas group undertakings are dealt with through reserves.

g) 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 it is considered will continue for the foreseeable future.

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 1991

1. ACCOUNTING POLICIES (contd)

h) 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.

i) Recording, production and developments costs

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

j) 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.

Operating leases and rentals due are charged against income in the period in which they are incurred.

k) 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 1991 £	Year ended 31 July 1990 £
Analysis of turnover by geographical area:		
United Kingdom	43,575,220	44,666,328
Rest of Europe	25,330,125	14,921,037
North America	4,343,196	950,235
Asia and Australasia	4,911,739	5,160,816
Rest of the World	1,969,916	763,019
	<hr/>	<hr/>
	80,130,196	66,461,435
	=====	=====

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1991

3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable comprises the following:

	Year ended 31 July 1991 £	Year ended 31 July 1990 £
Interest receivable from group undertakings	3,518,295	4,843,856
Other interest	2,255,810	263,934
	<hr/>	<hr/>
	5,774,105	5,107,790
	*****	*****

4. INTEREST PAYABLE AND SIMILAR CHARGES

Interest payable comprises the following:

	Year ended 31 July 1991 £	Year ended 31 July 1990 £
Interest payable to group undertakings	3,105,837	5,754,712
Interest on hire purchase and finance lease agreements	-	194,134
Interest on other loans	2,349,540	2,281,799
	<hr/>	<hr/>
	5,455,377	8,230,645
	*****	*****

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation
is stated after charging:

	Year ended 31 July 1991 £	Year ended 31 July 1990 £
Depreciation of tangible fixed assets	478,470	773,315
Hire of plant and machinery	(42,257)	12,689
Auditors' remuneration	37,400	36,000
Directors' emoluments	-	242,275
Distribution costs	2,839,028	2,455,042
	*****	*****

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1991

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge is comprised of:

	Year ended 31 July 1991 £	Year ended 31 July 1990 £
Corporation tax @ 33.67% (1990 : 35%) on the profit for the period	6,373,103	449,634
Adjustment to prior years	594,250	-
Overseas taxation	895,269	769,999
Double tax relief	(895,269)	(436,825)
Deferred taxation	(10,754)	(572)
	<u>6,956,599</u>	<u>782,236</u>
	*****	*****

7. EMPLOYEE INFORMATION

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

	Year ended 31 July 1991	Year ended 31 July 1990
Selling	42	36
Marketing and production	86	81
Administration	66	63
	<u>194</u>	<u>180</u>
	*****	*****

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

	Year ended 31 July 1991 £	Year ended 31 July 1990 £
Wages and salaries	3,940,359	3,838,441
Social security costs	408,586	448,805
Other pension costs	62,889	115,461
	<u>4,411,834</u>	<u>4,402,707</u>
	*****	*****

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1991

8. DIRECTORS' EMOLUMENTS

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

	Year ended 31 July 1991 £	Year ended 31 July 1990 £
For management services	360,206	327,436
Pension contributions	19,865	14,166
	<hr/>	<hr/>
	380,071	341,602
	=====	=====

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

Emoluments of the chairman	Nil	Nil
Emoluments of the highest paid director	136,154	130,417

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

£ 0	to	£ 5,000	5	5
£ 90,001	to	£ 95,000	-	1
£100,001	to	£105,000	1	1
£105,000	to	£110,000	-	-
£115,001	to	£120,000	1	-
£130,001	to	£135,000	-	1
£135,001	to	£140,000	1	-

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 1991

9. TANGIBLE FIXED ASSETS

	Freehold land & buildings £	Motor vehicles £	Plant & fixtures £	Total £
COST				
1 August 1990	3,540,622	2,327,152	1,609,246	7,477,020
Additions	3,175,308	-	383,955	3,559,263
Disposals	-	(2,116,043)	(12,714)	(2,128,757)
	<hr/>	<hr/>	<hr/>	<hr/>
31 July 1991	6,715,930	211,109	1,980,487	8,907,526
	=====	=====	=====	=====
DEPRECIATION				
1 August 1990	58,000	545,478	818,751	1,422,229
Charge for the period	92,053	52,711	333,706	478,470
Disposals	-	(521,121)	(8,293)	(529,414)
	<hr/>	<hr/>	<hr/>	<hr/>
31 July 1991	150,053	77,068	1,144,164	1,371,285
	=====	=====	=====	=====
NET BOOK VALUE				
31 July 1991	6,565,877	134,041	836,323	7,536,241
	=====	=====	=====	=====
31 July 1990	3,482,622	1,781,674	790,495	6,054,791
	=====	=====	=====	=====

Year ended
31 July 1991
£

Year ended
31 July 1990
£

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

Cost	-	2,101,043
Depreciation	-	506,121
	<hr/>	<hr/>
	-	1,594,922
	=====	=====
Depreciation charge for the period	-	416,830
	=====	=====

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 1991

10. INVESTMENTS

a) SHARES IN GROUP UNDERTAKINGS

	£
COST	
1 August 1990	
Additions	5,819,929
	3,130,560
31 July 1990	
	8,950,489
	=====
PROVISIONS/WRITTEN OFF	
1 August 1990	
Amount provided/written off in the year	3,728,735
	-
	3,728,735
	=====
NET BOOK VALUE	
31 July 1991	
	5,221,754
	=====
31 July 1990	
	2,091,194
	=====

The additions in the year were principally in respect of the acquisition of Virgin EG Limited.

b) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings of Virgin Records Limited are as follows:

Subsidiary Undertakings	Interest % (ordinary shares)	Nature of business
Ten Records Limited	100	Records
Charisma Records Limited	100	Records
Circa Records Limited	75	Records
Siren Records Limited	100	Records
Virgin Classics Limited	100	Records
Virgin Music (Publishers) Limited	100	Music publishing
Virgin Overseas Limited	100	Holding company
Virgin Studios Limited	100	Recording studios
Associated Virgin Labels Limited	100	Records
Leisure and Entertainment Limited	100	Holding Company
Virgin EG Limited	100	Records

All the above companies are registered in England and Wales. The principal subsidiary undertakings of Virgin Overseas Limited are detailed in that company's accounts.

11. STOCKS

	31 July 1991 £	31 July 1990 £
Finished goods and goods for resale	1,036,432	1,112,756
	=====	=====

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1991

12. DEBTORS

	31 July 1991 £	31 July 1990 £
Trade debtors	25,620,577	19,160,118
Amounts owed by group undertakings	10,142,386	25,077,956
Other debtors	3,370,630	5,245,553
Prepayments and accrued income	803,118	16,758
	<hr/>	<hr/>
	39,936,711	49,500,385
	*****	*****

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 owed by group undertakings include £600,000 (1990 : £600,000) which does not fall due until after more than one year.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 July 1991 £	31 July 1990 £
Bank loans and overdrafts	-	206,825
Obligations under hire purchase and finance lease agreements	-	1,003,240
Trade creditors	18,083,988	16,065,962
Amounts owed to group undertakings	35,089,637	35,443,691
Other creditors including taxation and social security	1,381,516	7,527,583
Accruals and deferred income	840,728	242,750
Corporation tax	510,868	-
	<hr/>	<hr/>
	55,906,737	60,490,051
	*****	*****

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 199114. CREDITORS: AMOUNTS FALLING DUE AFTER MORE
THAN ONE YEAR

	31 July 1991 £	31 July 1990 £
Bank loans and overdrafts	2,030,000	2,030,000
Obligations under hire purchase and finance lease agreements	-	605,942
Other creditors including taxation and social security	600,000	600,000
	<hr/> 2,630,000 *****	<hr/> 3,235,942 *****

The bank loans and overdrafts bear interest at floating rates and are secured on freehold property of the company.

Payments under hire purchase and finance
lease agreements are due as follows:

Year ended 31 July 1991	-	1,003,240
Year ended 31 July 1992	-	605,942
	<hr/> - *****	<hr/> 1,609,182 *****

There are no finance charges included in the above payments.

15. PROVISIONS FOR LIABILITIES AND CHARGES

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

	31 July 1991 £	31 July 1990 £
Accelerated capital allowances	- *****	10,754 *****

16. CALLED UP SHARE CAPITAL

	31 July 1991 £	31 July 1990 £
Authorised, allotted, called up and fully paid 10,000 ordinary shares of £1 each	10,000 *****	10,000 *****

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 July 1991

17. CAPITAL EXPENDITURE APPROVED

No capital expenditure had been contracted for by the directors at 31 July 1991 (1990 : £960,526). No capital expenditure had been authorised but not contracted for by the directors at 31 July 1991 (1990 : £nil).

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

18. COMMITMENTS UNDER OPERATING LEASES

	31 July 1991	31 July 1990
	£	£
Annual commitments under operating leases expiring:		
Within one year	123,292	-
Between one and five years	278,893	-
	<u>402,185</u>	<u>-</u>
	=====	=====

19. CONTINGENT LIABILITY

The company has undertaken together with certain UK undertakings within the Virgin Music Group to give joint and general guarantees to Lloyds Bank PLC in respect of amounts due to the Bank from the company and other group undertakings

20. HOLDING COMPANY

The ultimate holding company at 31 July 1991 was Virgin Music Group Limited, a company registered in England and Wales. Copies of the accounts of Virgin Music Group Limited can be obtained from The Registrar of Companies, Companies House, Cardiff, CF4 30Z.

VIRGIN RECORDS LIMITED
Profit and Loss Account for the year ended 31 July 1991

		Year ended 31 July 1991	Year ended 31 July 1990
	£	£	£
Sales		80,130,196	66,461,435
Cost of sales		(38,387,157)	(34,470,590)
Gross profit		<u>41,743,039</u>	<u>31,990,845</u>
Prime costs		(15,168,110)	(19,691,075)
Administrative expenses			
Salaries }			
Casual wages }	4,214,824		4,402,707
Employers NIC }			
Staff welfare }			
Depreciation of fixed assets	478,470		-
Hire of plant and equipment	(42,257)		773,315
(Profit)/loss on sale of fixed assets	1,147		12,689
Audit fees	37,400		14,486
Legal and professional	340,731		36,000
Light and heat	45,755		169,632
Rent and rates	154,813		35,643
Repairs and maintenance	90,943		284,494
Telephone, telex and facsimile	329,230		43,411
Insurance	68,306		262,508
Printing and stationary	98,958		104,636
Postage, couriers and messengers	298,536		71,971
Bank charges	27,765		102,497
Bad debts	225,107		22,792
Office expenses	462,703		153,951
Computer running costs	83,376		385,311
Computer development costs	6,657		163,866
Travel and entertaining	462,426		5,026
Motor expenses	1,124,342		580,650
Trade subscriptions	276,279		211,186
Charitable contributions	20		16,891
Sundry (income) expenses	159,645		100
Exchange (Gains)/Losses	(1,051,641)		4,517
Management charges - Virgin Group	90,000		1,043,902
Management charges - Other Subsidiaries	223,600		90,000
Sales force contribution	(495,266)		(114,126)
Leasing charges - Other Subsidiaries	(247,078)		(480,000)
Total administration expenses		<u>(7,464,791)</u>	<u>(8,398,055)</u>
Operating profit		<u>19,110,138</u>	<u>3,901,715</u>
Interest payable		(5,455,377)	(8,230,645)
Interest receivable		5,774,105	5,107,790
		<u>19,428,866</u>	<u>778,860</u>
Income from shares in group undertakings		-	20,000,000
Amounts written off investments		-	(19,265,708)
Profit before tax		<u>19,428,866</u>	<u>1,513,152</u>
		=====	=====