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VIRGIN RECORDS LIMITED

ACCOUNTS

31 JULY 1986



VIRGIN RECORDS LIMITED
ANNUAL REPORT AND STATEMENT OF ACCOUNTS
for the period ended 31 July 1986

CONTENTS

Page 1 to 2	Report of the Directors
3	Report of the Auditors
4	Profit and Loss Account
5	Balance Sheet
6	Statement of source and application of funds
7 to 14	Notes to the accounts

VIRGIN RECORDS LIMITED

Report of the Directors

The Directors present their annual report and the audited accounts for the period ended 31 July 1986.

ACCOUNTING REFERENCE DATE

In 1986 the accounting reference date of the Company was changed from 31 January to 31 July. The comparative figures are for the year ended 31 January 1985.

RESULTS

The results for the period 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 relative to rights obtained through contracts made with artistes.

BUSINESS REVIEW

The Company's turnover increased to £68m for the 18 month period. 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

A dividend of £710 per share has been paid (1985 - £400 per share).

DIRECTORS

The Directors of the company during the period were:

R C N Branson
K M Berry
J S Draper
A A H Clark
S G Lewis
J Webster
T Lyster
S M Macleod
L Anderson (resigned 11.12.85)
R H F Devereux (resigned 11.12.85)

None of the directors had an interest in the shares of the Company during the period other than as a result of an interest in the shares of the ultimate holding company Virgin Group Limited. The interests of Mr. Branson, Mr. Draper and Mr. Berry are disclosed in that company's accounts. Under the Virgin Group Share Option Scheme Mr. Clark has been granted options over 100 ordinary shares, Mr. Lewis has been granted options over 500 ordinary shares, Mr. Webster has been granted options over 500 ordinary shares, Mr. Lyster has been granted options over 150 ordinary shares and Miss Macleod has been granted options over 150 ordinary shares in the ultimate holding company.

VIRGIN RECORDS LIMITED

Report of the Directors

POLITICAL AND CHARITABLE CONTRIBUTIONS

There were no contributions made for political and charitable purposes.

CHANGES IN FIXED ASSETS

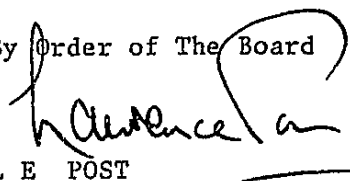
The movements in fixed assets during the period are set out in note 9 to the accounts.

AUDITORS

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

95-99 Ladbroke Grove
London W11 1PG

By Order of The Board


L E POST
Secretary.

4 November 1986

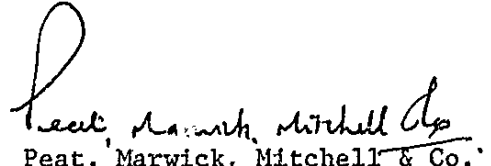
VIRGIN RECORDS LIMITED

REPORT OF THE AUDITORS
TO THE MEMBERS OF VIRGIN RECORDS LIMITED

We have audited the accounts on pages 4 to 14 in accordance with approved auditing standards.

In our opinion, the accounts, which have been prepared on the basis of the accounting policies set out on pages 7 to 8 give a true and fair view of the state of the Company's affairs at 31 July 1986 and of the profit and of source and application of funds of the Company for the period to that date, and comply with the Companies Act 1985.

1 Puddle Dock
Blackfriars
LONDON EC4V 3PD


Peat, Marwick, Mitchell & Co.
Chartered Accountants

4th November 1986

VIRGIN RECORDS LIMITED

Page 4

Profit and loss accountfor the period ended 31 July 1986

	Notes	18 months ended 31 July 1986	Year to 31 January 1985
		£	£
Turnover			
Cost of sales	1f) & 2	67,994,456 (45,183,217)	43,478,205 (26,709,545)
Gross profit		22,811,239	16,708,660
Distribution costs		(2,359,702)	(1,377,571)
Administrative expenses		(8,337,400)	(2,923,771)
Operating profit		12,114,137	12,457,318
Interest receivable and similar income		886,003	662,576
Interest payable and similar charges	3	(755,305)	(136,497)
Profit on ordinary activities before tax	4	12,244,835	12,933,397
Tax on profit on ordinary activities	5	(5,260,717)	(6,064,446)
Profit for the financial period		6,984,118	6,868,951
Dividend	6	(7,100,000)	(4,000,000)
Transfer from profit and loss account		(115,882)	2,868,951
Retained profit brought forward		3,668,062	799,111
Retained profit carried forward	7	3,552,180	3,668,062
		=====	=====

The 1985 figures have been adjusted where appropriate to reflect prior year adjustments as outlined in Note 17.

VIRGIN RECORDS LIMITEDBalance sheet 31 July 1986

	<u>Notes</u>			<u>31 January 1985</u>
		£	£	£
FIXED ASSETS				
Tangible assets	9		578,689	402,792
Investments	10		101,033	1,033
			<u>679,722</u>	<u>403,825</u>
CURRENT ASSETS				
Stocks	11	807,259		194,572
Debtors	12	22,603,449		19,763,243
Cash at bank and in hand		1,757,369		1,547,069
		<u>25,168,077</u>		<u>21,504,884</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	<u>(22,280,374)</u>		<u>(18,135,390)</u>
NET CURRENT ASSETS			<u>2,887,703</u>	<u>3,369,494</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>3,567,425</u>	<u>3,773,319</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14		(4,892)	(87,118)
PROVISIONS FOR LIABILITIES AND CHARGES	15		(353)	(8,139)
			<u>3,562,180</u>	<u>3,678,062</u>
CAPITAL AND RESERVES				
Called up share capital	16		10,000	10,000
Profit & loss account	17		3,552,180	3,668,062
			<u>3,562,180</u>	<u>3,678,062</u>

The accounts on pages 4 to 14 were approved by the Board of Directors on
4 November 1986 and signed on its behalf by:

R C N BRANSON

J S DRAPER

DIRECTORS

VIRGIN RECORDS LIMITED

Page 6

Statement of source and application of funds
for the period ended 31 July 1986

SOURCE OF FUNDS	£	18 months to 31 July 1986 £	Year to 31 January 1985 £
Profit before tax		12,244,835	12,933,397
Adjustments for items not involving the movement of funds:-			
Depreciation of tangible fixed assets	224,969		73,449
(Loss)/profit on sale of tangible fixed assets	63,975		(18,134)
Investment adjustments	-		87
Foreign translation differences	-		(79,340)
		288,944	(23,938)
Total generated from operations		12,533,779	12,909,459
Funds from other sources			
Sale proceeds of fixed assets	220,013		92,743
Intragroup transfers	-		26,811
		220,013	119,554
		12,753,792	13,029,013
APPLICATION OF FUNDS			
Investments	100,000		
Taxation paid and group relief	6,890,518		629,770
Purchase of fixed assets	684,854		400,835
Repayment of finance leases	82,226		133,333
Dividend paid	7,100,000		4,000,000
		14,857,598	5,163,938
(DECREASE)/INCREASE IN WORKING CAPITAL		(2,103,806)	7,865,075
(DECREASE)/INCREASE IN WORKING CAPITAL			
Stocks		612,687	(16,304)
Debtors		2,840,206	772,536
Creditors due within one year excluding taxation, dividends and overdrafts		(5,640,387)	5,500,109
		(2,187,494)	6,256,341
Movements in net liquid funds:			
Bank and cash balances		83,688	1,608,734
		(2,103,806)	7,865,075

VIRGIN RECORDS LIMITED

Notes to the accounts

for the period ended 31 July 1986

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.

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:

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 has been provided, 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.

f) Turnover

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

Notes to the accountsfor the period ended 31 July 1986

1. ACCOUNTING POLICIES (continued)

g) Royalties

Royalties receivable and payable are included on an accruals basis calculated on sales arising during the accounting period. 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 Development 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 which give rights approximating to ownership (finance lease) 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.

2. TURNOVER

Turnover, which excludes value added tax, represents the sales value of goods and services supplied.

	18 months to 31 July 1986		Year to 31 January 1985	
	Turnover	Profit before tax	Turnover	Profit before tax
	£	£	£	£
Record, tape and video products	67,994,456	12,244,835	43,478,205	12,933,397
	=====	=====	=====	=====
Analysis of turnover by geographical area:				
United Kingdom		40,736,174		22,690,504
Other than U.K.		27,258,282		20,787,701
		=====		=====
		67,994,456		43,478,205
		=====		=====

VIRGIN RECORDS LIMITEDNotes to the accountsfor the period ended 31 July 1986

3. INTEREST PAYABLE

Interest payable comprises the following:

	1986 £	1985 £
Interest on other loans	277,358	17,905
Group Interest	477,947	118,592
	<hr/>	<hr/>
	755,305	136,497
	=====	=====

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on ordinary activities before tax
is stated after charging:

Depreciation of tangible fixed assets	224,969	73,449
Hire of plant and machinery	18,816	7,372
Auditors' remuneration	20,500	13,000
Directors' emoluments (see below)	302,964	91,833

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge is comprised of:

Deferred taxation	(7,786)	8,139
Corporation tax @ 39.44% on the profit for the period	5,268,503	6,056,307
Overseas taxation	741,050	265,770
Double tax relief	(741,050)	(265,770)
	<hr/>	<hr/>
	5,260,717	6,064,446
	=====	=====

6. DIVIDEND

Ordinary dividend of £710 per share (1985 - £400)	7,100,000	4,000,000
	=====	=====

VIRGIN RECORDS LIMITEDNotes to the accountsfor the period ended 31 July 1986

7. EMPLOYEE INFORMATION

- a) The average number of persons employed by the Company during the period is as below:

	1986	1985
Selling	32	29
Production	66	57
Administration	23	21
	<u>121</u>	<u>107</u>

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

	£	£
Wages and salaries	2,393,756	997,933
Social security costs	330,338	98,036
	<u>2,724,094</u>	<u>1,095,969</u>
	=====	=====

8. DIRECTORS' EMOLUMENTS

The emoluments of the directors, including pension contributions, were as follows:

For management services	<u>302,964</u>	<u>91,833</u>
	=====	=====

Directors' emoluments excluding pension contributions, were as follows:

Emoluments of the Chairman	Nil	Nil
Emoluments of the highest paid director	89,683	39,298

The emoluments of the other directors were within the following ranges:

£0 to £ 5,000	4	5
£ 5,001 to £10,000	-	1
£10,001 to £15,000	-	1
£30,001 to £35,000	-	1
£55,001 to £60,000	1	-
£60,001 to £65,000	1	-
£75,001 to £80,000	1	-
£85,001 to £90,000	1	-

VIRGIN RECORDS LIMITEDNotes to the accountsfor the period ended 31 July 1986

9. TANGIBLE FIXED ASSETS

	Motor vehicles £	Plant & fixtures £	Total £
COST			
1 February 1985	381,348	196,032	577,380
Additions	540,892	125,481	666,373
Intragroup additions	25,766	-	25,766
Disposals	(384,633)	-	(384,633)
Intragroup disposals	(27,808)	-	(27,808)
31 July 1986	535,565	321,513	857,078
	=====	=====	=====
DEPRECIATION			
1 February 1985	61,290	113,298	174,588
Charge for period	172,646	52,323	224,969
Intragroup additions	7,285	-	7,285
Disposals	(119,932)	-	(119,932)
Intragroup disposals	(8,521)	-	(8,521)
31 July 1986	112,768	165,621	278,389
	=====	=====	=====
NET BOOK VALUE			
31 July 1986	422,797	155,892	578,689
	=====	=====	=====
31 January 1985	320,058	82,734	402,792
	=====	=====	=====

LEASED ASSETS

	1986 £	1985 £
Included in plant and machinery are assets acquired under finance leases as follows:		
COST	226,532	375,220
Depreciation	77,961	58,946
Net book value	148,571	316,274
	=====	=====
Depreciation charge for the period	141,853	58,068

VIRGIN RECORDS LIMITEDNotes to the accountsfor the period ended 31 July 1986

10. INVESTMENTS

- a) The following companies, all incorporated in England, were subsidiaries at 31 July 1986:

	<u>Interest %</u>	<u>Nature of Business</u>
10 Records Ltd	92.5	Records & Tapes
Siren Records Ltd	80.0	Records & Tapes
Dindisc Ltd	100	Non-trader
Dinsong Ltd	100	Non-trader
Clifdayn Productions Ltd	100	Non-trader
Event Publishing Ltd	100	Non-trader
Cable Investments Ltd	100	Non-trader
Virgin Publications Ltd	100	Non-trader
Virgin Films Ltd	100	Non-trader
Virgin Video Ltd	100	Non-trader
Virgin TV Productions Ltd	100	Non-trader
Charisma Records Ltd	100	Records & Tapes

- b) Investment in other group company:

An investment amounting to 40% is held in a subsidiary of Virgin Holdings Limited, a fellow subsidiary of Virgin Group Limited.

- c) Subsidiaries are shown in the Balance Sheet at cost.

11. STOCKS

	1986	1985
	£	£
Finished goods and goods for resale	807,259	194,572
	=====	=====

12. DEBTORS

All amounts fall due within one year

Trade debtors	6,550,434	4,542,090
Amounts due from group companies	15,449,130	15,109,601
Other debtors	359,037	79,786
Prepayments and accrued income	244,848	31,766
	=====	=====
	22,603,449	19,763,243
	=====	=====

VIRGIN RECORDS LIMITEDNotes to the accountsfor the period ended 31 July 1986

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1986	1985
	£	£
Debenture loans	1,986,316	1,665,268
Bank loans and overdrafts	126,612	-
Trade creditors	9,521,303	9,025,179
Amounts due to group companies	4,599,409	1,072,770
Other creditors	1,816,066	85,567
Obligations under finance leases	47,646	148,621
Accruals and deferred income	14,500	347,448
United Kingdom Corporation Tax	4,168,522	5,790,537
	<u>22,280,374</u>	<u>18,135,390</u>
	=====	=====

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

Obligations under finance leases	4,892	87,118
	=====	=====
Rentals under finance leases are due as follows:		
1986	-	169,797
1987	53,203	75,028
1988	5,821	24,503
	<u>59,024</u>	<u>269,328</u>
	=====	=====
Included in the above rentals are amounts relating to finance charges of	<u>6,486</u>	<u>33,589</u>

15. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation, which has been provided for the full potential liability calculated on the liability method is as follows:-

Accelerated capital allowances.	353	8,139
	=====	=====

16. SHARE CAPITAL

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 period ended 31 July 1986

17. PROFIT AND LOSS ACCOUNT

	£	£	1985 £	£
Transfer to/(from) profit and loss account		(115,882)		2,868,951
Retained reserves at the beginning of the year.	3,668,062		1,231,357	
Prior year adjustments resulting from an error in accounting treatment relating to advances received.		-	(432,246)	
As restated		3,668,062		799,111
		3,552,180		3,668,062
		=====		=====

18. CAPITAL EXPENDITURE APPROVED

No capital expenditure had been contracted for or approved by the Directors for the Company (1985 - Nil).

19. CONTINGENT LIABILITY

The Company in common with other subsidiaries of Virgin Group Limited has entered into guarantees in respect of bank overdrafts and other borrowings of certain Virgin Group companies. Certain of these guarantees are supported by mortgage debentures creating fixed and floating charges over the majority of the groups assets. The borrowings of these subsidiary companies at 31 July 1986 amounted to £31,033,512 (1985 - £2,179,000).

20. HOLDING COMPANY

The ultimate holding company is Virgin Group Limited; a company incorporated in England.