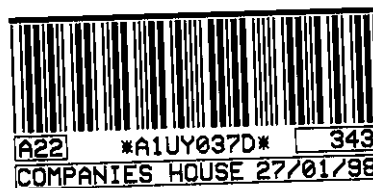


VIRGIN RECORDS LIMITED

REPORT AND ACCOUNTS

31 MARCH 1997

COMPANY'S REGISTERED NUMBER 1070953



VIRGIN RECORDS LIMITEDReport of the directors

The directors present their annual report and accounts for the year ended 31 March 1997.

**RESULTS AND DIVIDENDS**

The results for the year are set out on page 6.

The directors recommended and paid a dividend amounting to £78,074,000 (1996:£35,693,000).

**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.

**FUTURE DEVELOPMENTS**

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.

**DIRECTORS AND THEIR INTERESTS**

The directors of the company at 31 March 1997 are listed below. The only interest held by the directors in the share capital and loan stocks of the company's ultimate parent undertaking at that date, EMI Group plc, or any subsidiary undertakings thereof, were ordinary shares and options to purchase ordinary shares of EMI Group plc, granted in accordance with the provisions of that company's share option schemes, as follows:-

	At 31 March 1997	At 31 March 1997	At 1 April 1996 or date of appointment	At 1 April 1996 or date of appointment
	Options over Ordinary Shares	Options over Ordinary Shares	Options over Ordinary shares	Options over Ordinary shares
P.S.Robinson	3,040	1,110	608	1,614
P.A.Kernick (appointed 14 February 1997)	-	-	-	-

VIRGIN RECORDS LIMITEDReport of the directorsDIRECTORS AND THEIR INTERESTS (Contd.)

Under the demerger arrangements, each ordinary share in THORN EMI plc converted into one ordinary share in Thorn plc and one ordinary share in EMI Group plc on 19 August 1996.

Following the demerger, options under the Executive Option Scheme remain over only EMI Group plc shares. Therefore, the number of shares under option was adjusted to reflect the demerger, either by way of adjustment or by way of a grant of additional options, by reference to the prices of EMI Group plc and Thorn plc shares averaged over the first five dealing days following the demerger.

Prior to the demerger, SAYE optionholders were offered an alternative award of shares, on condition they renounce their options, equal in value to the aggregate gain on their option, based on the total number of shares under option and calculated on the difference between the relevant option exercise price and the price of THORN EMI shares on the day the EGM to approve the demerger was held. The shares were awarded by the THORN EMI Group General Employee Benefit Trust immediately prior to the demerger, thereby being entitled to the demerger dividend of Thorn plc shares. All optionholders of the company accepted the offer and renounced all their options.

Ms J.Berry resigned as a director on 14 February 1997.

The directors of the company are not subject to retirement by rotation or otherwise.

VIRGIN RECORDS LIMITED

Report of the directors

**FIXED ASSETS**

The movements in fixed assets during the year are set out in notes 10 and 11 of the accounts.

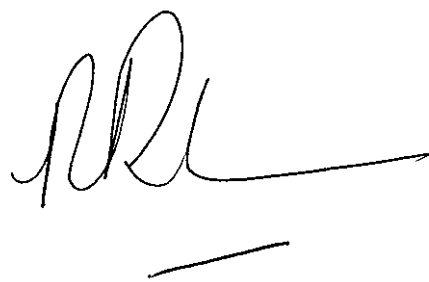
**POST BALANCE SHEET EVENTS**

The increases in authorised and issued share capital and other share transactions which occurred subsequent to the year end are set out in note 17 of the accounts.

**AUDITORS**

An elective resolution was passed in 1993 to do away with the need to reappoint auditors annually.

By Order of The Board

A handwritten signature in black ink, appearing to be 'P.S. Robinson', with a long horizontal line extending to the right.

Kensal House  
553-579 Harrow Road  
LONDON  
W10 4RH

P.S. Robinson  
Director

21 JAN 1998

VIRGIN RECORDS LIMITEDStatement of Directors' ResponsibilitiesIn Respect of the Accounts

Company law requires the directors to prepare accounts 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 those accounts, 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 accounts; and
- . prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts 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.

REPORT OF THE AUDITORS

TO THE MEMBERS OF VIRGIN RECORDS LIMITED

We have audited the accounts set out on pages 6 to 19 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 8 and 9.

**Respective responsibilities of directors and auditors**

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

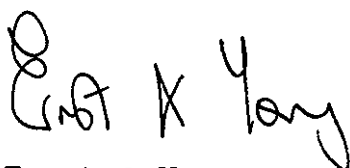
**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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 accounts 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 accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Chartered Accountants  
Registered Auditor  
London

21 JAN 1998

VIRGIN RECORDS LIMITED  
Profit and loss account  
for the year ended 31 March 1997

	Notes	1997 £	1996 £
Turnover	2	219,561,642	164,168,102
Cost of Sales		(131,929,451)	(87,926,360)
Gross profit		87,632,191	76,241,742
Prime costs		(41,682,530)	(31,122,486)
Administrative expenses		(31,367,270)	(10,469,536)
Other operating income		28,038,727	-
Operating profit before exceptional items		42,621,118	34,649,720
Profit on disposal of investments	3	163,748,000	-
Operating profit after exceptional items		206,369,118	34,649,720
Interest receivable and similar income	4	9,623,248	5,024,259
Interest payable and similar charges	5	(6,418)	-
Profit on ordinary activities before taxation	6	215,985,948	39,673,979
Tax on profit on ordinary activities	7	(2,567,743)	(2,428,164)
Profit on ordinary activities after taxation		213,418,205	37,245,815
Dividends paid		(78,074,000)	(35,693,000)
Retained profit for the financial year		135,344,205	1,552,815
Retained profit brought forward		17,842,565	16,289,750
		153,186,770	17,842,565
		=====	=====

Statement of Total Recognised Gains and Losses

for the Year Ended 31 March 1997

There are no recognised gains or losses attributable to the shareholders of the company in the year ended 31 March 1997 other than the profit of £213,418,205 and the profit of £37,245,815 for the year ended 31 March 1996.

VIRGIN RECORDS LIMITEDBalance sheet at 31 March 1997

	Notes	1997 £	1996 £
FIXED ASSETS			
Tangible Assets	10	9,703,690	9,092,046
Investments	11	401,600,000	401,852,000
		<hr/>	<hr/>
		411,303,690	410,944,046
CURRENT ASSETS			
Stock	12	925,484	1,196,323
Debtors	13	420,090,230	234,530,836
Cash at bank and in hand		8,474,121	941,332
		<hr/>	<hr/>
		429,489,835	236,668,491
CREDITORS: Amounts falling due within one year	14	(203,152,311)	(144,788,777)
		<hr/>	<hr/>
NET CURRENT ASSETS		226,337,524	91,879,714
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		637,641,214	502,823,760
PROVISIONS FOR LIABILITIES AND CHARGES	15	-	(526,751)
		<hr/>	<hr/>
		637,641,214	(502,297,009)
		=====	=====
CAPITAL AND RESERVES			
Called up share capital	16	484,454,444	484,454,444
Profit and loss account	18	153,186,770	17,842,565
		<hr/>	<hr/>
Equity Shareholders' funds		637,641,214	502,297,009
		=====	=====

The accounts were approved by the Board of Directors on and signed on its behalf by:



DIRECTOR

21 JAN 1998



VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1997**1. ACCOUNTING POLICIES**

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

**a) Accounting convention**

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

**b) Group accounts**

The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare group accounts.

**c) Cash flow statement**

A cash flow statement is not prepared as the company is exempt by virtue of paragraph 8 of FRS1 being a subsidiary undertaking of a parent undertaking registered in England and Wales which prepares a consolidated cash flow statement.

**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

VIRGIN RECORDS LIMITEDNotes to the accounts  
for the year ended 31 March 1997

## 1. ACCOUNTING POLICIES (contd.)

## 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. All differences are taken to the profit and loss account.

## g) Advances to artistes

Advances to artistes and repertoire owners are assessed and the value of the unrecouped portion to be included in the debtors is determined by the prospects of future recoupment, based on past sales performance, current popularity and projected sales.

## 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 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 to the Profit and Loss account on a straight line-basis over the lease term.

## 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.

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1997**2. TURNOVER**

Turnover is stated net of value added tax and represents amounts invoiced to third parties. Turnover is attributable to one activity, the exploitation of contracts made with artistes.

Analysis of turnover by geographical area:

	1997 £	1996 £
United Kingdom	160,220,903	110,958,522
Rest of the World	59,340,739	53,209,580
	<hr/>	<hr/>
	219,561,642	164,168,102
	=====	=====

**3. PROFIT ON DISPOSAL**

	1997 £	1996 £
Profit on disposal of investments	163,748,000	-
	=====	=====

This represents the profit made on the sale of Virgin Holdings BV to EMI Group plc.

**4. INTEREST RECEIVABLE AND SIMILAR INCOME**

Interest receivable comprises the following:

	1997 £	1996 £
Bank deposit interest	82,067	114,689
Interest on Group loans	7,875,534	2,931,373
Bank interest	1,646,982	1,891,197
Other	18,665	87,000
	<hr/>	<hr/>
	9,623,248	5,024,259
	=====	=====

**5. INTEREST PAYABLE AND SIMILAR EXPENSE**

	1997 £	1996 £
Other	6,418	-
	=====	=====

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1997**6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

Profit on ordinary activities before taxation  
is stated after charging/(crediting):

	1997 £	1996 £
Depreciation of tangible fixed assets	609,838	447,835
Hire of plant and machinery	426,343	413,155
Auditors' remuneration - Audit services	51,500	71,500
Rental of land and buildings	229,467	9,717
(Profit) on disposal of fixed assets	(5,643)	(3,125)
Foreign exchange adjustments	(1,099,173)	290,218
	<hr/>	<hr/>

**7. TAX ON PROFIT ON ORDINARY ACTIVITIES**

The taxation charge is comprised of:

	1997 £	1996 £
Overseas taxation	2,567,743	2,428,164
	<hr/>	<hr/>

The company is primarily liable for UK corporation tax on its profits. However, no provision has been made in these accounts for either current or deferred taxation, as an undertaking has been received from its ultimate parent undertaking, EMI Group plc, that the latter will assume responsibility for any such taxation as long as the company remains a subsidiary undertaking. In view of the undertaking received, no disclosure is made in these accounts of any potential liability to taxation.

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1997

## 8. EMPLOYEE INFORMATION

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

	1997 No.	1996 No.
Selling	36	35
Marketing and production	67	64
Administration	58	54
	—	—
	161	153
	===	===

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

	1997 £	1996 £
Wages and salaries	7,005,196	6,277,884
Social security costs	659,132	570,064
Other pension costs	263,734	134,778
	—	—
	7,928,062	6,982,726
	=====	=====

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1997

## 9. DIRECTORS' EMOLUMENTS

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

	1997 £	1996 £
For management services	155,918	149,158
Pension contributions	188	3,221
	<hr/>	<hr/>
	156,106	152,379
	=====	=====

## 10. TANGIBLE FIXED ASSETS

	Freehold land & buildings £	Motor vehicles £	Plant & fixtures £	Total £
COST				
1 April 1996	8,681,152	37,307	4,330,238	13,048,697
Additions	-	74,598	1,149,959	1,224,557
Disposals	-	(12,307)	-	(12,307)
Reallocation	(110,764)	-	110,764	-
	<hr/>	<hr/>	<hr/>	<hr/>
31 March 1997	8,570,388	99,598	5,590,961	14,260,947
	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION				
1 April 1996	857,031	32,181	3,067,439	3,956,651
Provided during the year	146,661	8,388	454,789	609,838
Disposals	-	(9,232)	-	(9,232)
	<hr/>	<hr/>	<hr/>	<hr/>
31 March 1997	1,003,692	31,337	3,522,228	4,557,257
	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUE				
31 March 1997	7,566,696	68,261	2,068,733	9,703,690
	=====	=====	=====	=====
1 April 1996	7,824,121	5,126	1,262,799	9,092,046
	=====	=====	=====	=====

VIRGIN RECORDS LIMITEDNotes to the accounts  
for the year ended 31 March 1997

## 11. INVESTMENTS

	£
a) SHARES IN GROUP UNDERTAKINGS	
COST	
At 1 April 1996	422,798,911
Disposals	(252,000)
	<hr/>
At 31 March 1997	422,546,911
	<hr/>
PROVISIONS	
At 1 April 1996	20,946,911
Charged in year	-
	<hr/>
At 31 March 1997	20,946,911
	<hr/>
NET BOOK VALUE	
At 31 March 1997	401,600,000
	=====
At 1 April 1996	401,852,000
	=====
In the opinion of the directors the value of the investments is at least equal to their carrying value.	

## 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	Non-trading
Charisma Records Limited	100	
Circa Records Limited	100	: :
Siren Records Limited	100	: :
Associated Virgin Record Labels Limited	100	: :
Leisure and Entertainment Limited	100	Holding Company
Virgin EG Limited (held by subsidiary undertaking)		Non-trading
Sacred Heart Records Limited		: :
EMI UK Holdings Limited	100	Holding Company

All the above companies are registered in England and Wales.

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1997

## 11. INVESTMENTS (contd.)

On 22 March 1996 the Company paid £400,000,000 to acquire 100% of the Ordinary Share Capital of EMI UK Holdings Limited, which owns record and music publishing companies.

## 12. STOCK

	1997	1996
	£	£
Finished goods and goods for resale	925,484	1,196,323
	=====	=====

## 13. DEBTORS

	1997	1996
	£	£
Trade debtors	4,861,992	5,965,462
Amounts owed by group undertakings	410,222,245	224,871,153
Other debtors	5,005,993	3,634,221
Prepayments and accrued income	—	60,000
	=====	=====
	420,090,230	234,530,836
	=====	=====

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

14. CREDITORS: Amounts falling due  
within one year

	1997	1996
	£	£
Bank loans and overdrafts	1,358	2,382,277
Trade creditors	41,387,481	26,782,927
Amounts owed to group undertakings	143,211,209	97,589,329
Amounts owed to subsidiary undertakings	10,184,463	10,184,463
Taxation and social security	231,814	410,781
Other creditors	1,485,030	1,081,640
Accruals and deferred income	6,650,956	6,357,360
	=====	=====
	203,152,311	144,788,777
	=====	=====



VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1997

## 15. PROVISIONS FOR LIABILITIES AND CHARGES

Provision for rationalisation and restructuring costs	1997 £	1996 £
Opening balance	526,751	747,204
Amounts charged against the provision	(526,751)	(220,453)
	<hr/>	<hr/>
Balance at 31 March 1997	- =====	526,751 =====

## 16. SHARE CAPITAL

	1997 £	1996 £
Authorised Ordinary shares of £1 each	600,000,000	600,000,000
	DM	DM
`A' Fixed Rate Cumulative Redeemable Preference Shares of DM1 each	500,000,000	500,000,000
`B' Fixed Rate Cumulative Redeemable Preference Shares of DM1 each	150,000,000	150,000,000
	<hr/>	<hr/>
	650,000,000 =====	650,000,000 =====
	1997 £	1996 £
Issued, allotted, called up and fully paid Ordinary shares of £1 each	400,010,000	10,000
Issue of ordinary shares of £1 each	-	400,000,000
Issue of 190,000,000 preference `A' shares of DM1 each	84,444,444	84,444,444
	<hr/>	<hr/>
Closing balance	484,454,444 =====	484,454,444 =====

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1997**16. SHARE CAPITAL (contd.)**

On 22 March 1996 the authorised share capital was increased by 599,990,000 Ordinary Shares of £1 each, 500,000,000 'A' Fixed Rate Cumulative Redeemable Preference Shares of DM1 each.

400,000,000 £1 ordinary shares were issued during the year in order to finance the acquisition of EMI UK Holdings Limited. 190,000,000 DM1 preference 'A' shares were also issued to EMI Group Germany GmbH for the purpose of long term funding.

**17. POST BALANCE SHEET EVENTS**

On 22 May 1997 Virgin Records Limited increased its authorised share capital as follows:-

	22 May 1997	31 March 1997
	£	£
Ordinary Shares of £1 each	1,200,000,000	600,000,000
	DM	DM
'A' Fixed Rate Cumulative Redeemable Preference Shares of DM1 each	500,000,000	500,000,000
'B' Fixed Rate Cumulative Redeemable Preference Shares of DM1 each	150,000,000	150,000,000
	<hr/>	<hr/>
	650,000,000	650,000,000
	=====	=====
	FFr	FFr
'C' Cumulative Convertible Participating Preference Shares of FFr10 each	5,000,000,000	-
'D' Participating Preference Shares of FFr10 each	1,500,000,000	-
	<hr/>	<hr/>
	6,500,000,000	-
	=====	=====

Following the increase in authorised share capital, 300,000,000 Ordinary shares of £1 each were issued to EMI Group plc at par and 100,000,000 'C' Preference shares of FFr10 each were issued to EMI Group Participations SA at par.

VIRGIN RECORDS LIMITEDNotes to the accounts  
for the year ended 31 March 1997

## 17. POST BALANCE SHEET EVENTS (contd.)

Also on that date, Virgin Records Limited acquired 854,935,045 Ordinary shares of 50pence each, at par, in the capital of EMI UK Holdings Limited. The amount paid of £427,467,522.50 was then lent to Virgin Records Limited's ultimate parent undertaking, EMI Group plc.

On 1 June 1997 13,617,534 'B' Fixed Rate Cumulative Redeemable Preference Shares of DM1 each were issued to EMI Group Germany GmbH at par, which represents the dividend due on the existing Preference Shares held.

## 18. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	SHARE CAPITAL	PROFIT AND LOSS ACCOUNT	TOTAL
	£	£	£
At 1 April 1995	10,000	16,289,750	16,299,750
Profit for the year	-	37,245,815	37,245,815
Dividend Paid	-	(35,693,000)	(35,693,000)
Issue of Shares	484,444,444	-	484,444,444
	<hr/>	<hr/>	<hr/>
At 1 April 1996	484,454,444	17,842,565	502,297,009
Profit for the year	-	213,418,205	213,418,205
Dividend Paid	-	(78,074,000)	(78,074,000)
	<hr/>	<hr/>	<hr/>
At 31 March 1997	484,454,444	153,186,770	637,641,214
	=====	=====	=====

## 19. FINANCIAL COMMITMENTS

No capital expenditure had been contracted for or approved by the directors for the company (1996:£nil). The group has commitments, which are largely performance related, to pay advances to artists and repertoire owners amounting to approximately £62,126,000 at 31 March 1997 (1996: £63,818,000).

Annual commitments under operating leases at 31 March were as follows:

	1997	1996
	£	£
Plants, equipment and vehicles:		
Expiring in the first year	44,563	60,520
Expiring in the second to fifth years inclusive	342,582	245,940
	<hr/>	<hr/>
	387,145	306,460
	=====	=====

VIRGIN RECORDS LIMITED

Notes to the accounts

for the year ended 31 March 1997

**20. CAPITAL EXPENDITURE**

No capital expenditure has been contracted for or approved by the directors for the company at 31 March 1997 (1996:£nil).

**21. CONTINGENT LIABILITY**

The company has undertaken, together with certain other UK undertakings within the EMI Group plc group, to give joint and several guarantees to the bank in respect of amounts due to the bank from the company and other group undertakings.

**22. RELATED PARTY TRANSACTIONS**

The company has taken advantage of the exemption under Financial Reporting Standard 8 - Related Party Disclosures (FRS 8) not to disclose related party transactions between wholly owned group undertakings.

**23. ULTIMATE PARENT UNDERTAKING**

The ultimate parent undertaking of the group of undertakings for which group accounts were drawn up for the year ended 31 March 1997 and of which the company was a member was EMI Group plc, registered in England and Wales.

Copies of EMI Group plc's accounts can be obtained from:-

EMI Group plc  
4 Tenterden Street  
Hanover Square  
London  
W1A 2AY  
ENGLAND