

1070953

Report and Accounts

Virgin Records Limited

31 March 1999



Virgin Records Limited

Registered No. 1070953

DIRECTORS

P S Robinson
P A Kernick
D J T Bratchell

SECRETARY

P S Robinson

AUDITORS

Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7EU

BANKERS

Barclays Bank PLC
Hayes Station Road
Hayes, Middlesex

SOLICITORS

Rowe & Maw
20 Black Friars Lane
London EC4V 6HD

REGISTERED OFFICE

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

Virgin Records Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 March 1999.

RESULTS AND DIVIDENDS

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

The directors recommended and paid a dividend amounting to £107,315,000 (1998 – £77,585,265).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

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.

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 who served during the year ended 31 March 1999 are shown on page 1.

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 1999		At 31 March 1998	
	Options over		Options over	
	Ordinary	Ordinary	Ordinary	Ordinary
	shares	shares	shares	shares
P S Robinson	2,216	4,068	3,040	1,110
P A Kernick	—	—	—	—
D J T Bratchell	17,891	54,843	17,781	49,252

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

YEAR 2000

During the past three years the EMI Group implemented a programme to update or replace all date dependent internal systems that are critical to the group's ongoing operations or preparation of financial information.

AUDITORS

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

On behalf of the board

Director

27 JAN 2000

Virgin Records Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN 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 on pages 5 to 15, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 3 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.

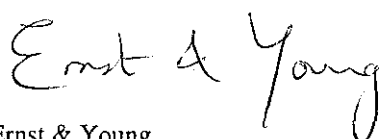
Basis of opinion

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 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

27 JAN 2000

Virgin Records Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 1999

	Notes	1999 £	1998 £
TURNOVER	2	204,311,941	243,894,255
Cost of sales		(115,112,834)	(138,571,985)
GROSS PROFIT		89,199,107	105,322,270
Prime costs		(43,076,176)	(46,650,935)
Administrative expenses		(17,411,532)	(19,443,481)
Other operating income		76,661,690	26,190,000
		16,173,982	(39,904,416)
Operating profit	3	105,373,089	65,417,854
Interest receivable and similar income	6	13,458,502	10,640,316
Interest payable and similar charges	7	(838,473)	(1,633)
		12,620,029	10,638,683
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		117,993,118	76,056,537
Tax on profit on ordinary activities	8	(3,315,769)	(3,707,732)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		114,677,349	72,348,805
Dividends:			
Preference dividends on non-equity shares		22,215,000	12,822,265
Ordinary dividends on equity shares		85,100,000	64,763,000
		(107,315,000)	(77,585,265)
PROFIT/(LOSS) RETAINED FOR THE FINANCIAL YEAR		7,362,349	(5,236,460)
RETAINED PROFIT BROUGHT FORWARD		147,950,310	153,186,770
	15	155,312,659	147,950,310

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses attributable to the shareholders of the company in the year ended 31 March 1999 other than the profit of £114,677,349 (1998 – £72,348,805).

Virgin Records Limited

BALANCE SHEET at 31 March 1999

	Notes	1999 £	1998 £
FIXED ASSETS			
Tangible assets	9	9,250,140	9,463,518
Investments	10	837,892,000	837,892,000
		<u>847,142,140</u>	<u>847,355,518</u>
CURRENT ASSETS			
Stock	11	1,181,539	1,224,286
Debtors	12	397,760,608	436,440,978
Cash at bank and in hand		93,017	10,864,508
		<u>399,035,164</u>	<u>448,529,772</u>
CREDITORS: amounts falling due within one year	13	(194,929,201)	(251,999,536)
		<u>204,105,963</u>	<u>196,530,236</u>
NET CURRENT ASSETS			
		<u>1,051,248,103</u>	<u>1,043,885,754</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u><u>1,051,248,103</u></u>	<u><u>1,043,885,754</u></u>
CAPITAL AND RESERVES			
Called up share capital	14	895,935,444	895,935,444
Profit and loss account	15	155,312,659	147,950,310
Shareholders' funds			
Equity		855,322,659	847,960,310
Non-equity		195,925,444	195,925,444
		<u>1,051,248,103</u>	<u>1,043,885,754</u>
		<u><u>1,051,248,103</u></u>	<u><u>1,043,885,754</u></u>

27 JAN 2000

Virgin Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1999

1. ACCOUNTING POLICIES

Accounting convention

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

Group accounts

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

Cash flow statements

A cash flow statement is not prepared as the company is exempt by virtue of paragraph 8 of FRS 1 being a subsidiary undertaking of a parent undertaking registered in England and Wales which prepares a group cash flow statement.

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	—	5 years

Stocks

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

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 into sterling at the exchange rate ruling at the balance sheet date. All differences are taken to the profit and loss account.

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.

Recording, production and development costs

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

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.

Virgin Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1999

1. ACCOUNTING POLICIES (continued)

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

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:

	1999 £	1998 £
United Kingdom	142,770,015	154,582,278
Rest of the World	61,541,926	89,311,977
	<u>204,311,941</u>	<u>243,894,255</u>

3. OPERATING PROFIT

This is stated after charging/(crediting):

	1999 £	1998 £
Depreciation of tangible fixed assets	481,040	843,636
Hire of plant and machinery	398,413	454,328
Auditors' remuneration – audit services	53,200	51,500
Rental of land and buildings	32,174	21,308
Profit on disposal of fixed assets	550	–
Foreign exchange adjustments	–	(472,828)
	<u> </u>	<u> </u>

4. DIRECTORS' EMOLUMENTS

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

	1999 £	1998 £
For management services	323,616	205,174
Pension contributions	–	–
	<u>323,616</u>	<u>205,174</u>

Virgin Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1999

4. DIRECTORS' EMOLUMENTS (continued)

The amounts in respect of the highest paid director are as follows:

	1999 £	1998 £
Emoluments	207,702	120,050
Company contributions paid to pension scheme	—	—
	<u>207,702</u>	<u>120,050</u>

DJT Bratchell is paid by EMI Group plc.

5. STAFF COSTS

	1999 £	1998 £
Wages and salaries	9,115,000	8,516,632
Social security costs	803,412	730,827
Other pension costs	317,000	236,957
	<u>10,235,412</u>	<u>9,484,416</u>

The average number of employees during the year was made up as follows:

	No.	No.
Selling	35	35
Marketing and production	82	81
Administration	59	58
	<u>176</u>	<u>174</u>

6. INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable comprises the following:

	1999 £	1998 £
Bank deposit interest	18,027	29,374
Interest on group loans	12,479,966	10,037,300
Bank interest	732,857	573,642
Other	227,652	—
	<u>13,458,502</u>	<u>10,640,316</u>

Virgin Records Limited

NOTES TO THE ACCOUNTS at 31 March 1999

7. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £	1998 £
Bank deposit interest	351,732	-
Bank interest	248,471	-
Other	238,270	1,633
	<u>838,473</u>	<u>1,633</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1999 £	1998 £
Overseas taxation	<u>3,315,769</u>	<u>3,707,732</u>

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 UK taxation.

9. TANGIBLE FIXED ASSETS

	<i>Freehold land and buildings</i> £	<i>Motor vehicles</i> £	<i>Plant and fixtures</i> £	<i>Total</i> £
Cost:				
At 31 March 1998	8,634,637	99,598	6,130,176	14,864,411
Additions	-	8,068	275,844	283,912
Disposals	-	(57,500)	-	(57,500)
At 31 March 1999	<u>8,634,637</u>	<u>50,166</u>	<u>6,406,020</u>	<u>15,090,823</u>
Depreciation:				
At 31 March 1998	1,174,796	49,986	4,176,111	5,400,893
Provided during the year	(148,044)	17,281	611,803	481,040
On disposals	-	(41,250)	-	(41,250)
At 31 March 1999	<u>1,026,752</u>	<u>26,017</u>	<u>4,787,914</u>	<u>5,840,683</u>
Net book value:				
At 31 March 1999	<u>7,607,885</u>	<u>24,149</u>	<u>1,618,106</u>	<u>9,250,140</u>
At 31 March 1998	<u>7,459,841</u>	<u>49,612</u>	<u>1,954,065</u>	<u>9,463,518</u>

Virgin Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1999

10. INVESTMENTS

Shares in group undertakings

	£
Cost:	
At 31 March 1998	858,838,911
Additions	—
At 31 March 1999	858,838,911
Provisions:	
At 31 March 1998	20,946,911
Provided during the year	—
At 31 March 1999	20,946,911
Net book value:	
At 31 March 1998	837,892,000
At 31 March 1999	837,892,000

On 22 May 1997, Virgin Records Limited acquired 854,935,045 ordinary shares of 50p each, at par, in the capital of EMI UK Holdings Limited. The amount paid of £427,467,552.50 was then lent by EMI UK Holdings Limited to Virgin Records Limited's ultimate parent undertaking, EMI Group plc.

Principal subsidiary undertakings

In the opinion of the directors the value of the investments is at least equal to their carrying value.

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

<i>Subsidiary undertakings</i>	<i>Interest % (ordinary shares)</i>	<i>Nature of business</i>
Ten Records Limited	100	Non-trading
Charisma Records Limited	100	Non-trading
Circa Records Limited	100	Non-trading
Siren Records Limited	100	Non-trading
Associated Virgin Record Labels Limited	100	Non-trading
Leisure and Entertainment Limited	100	Holding company
Virgin EG Records Limited (held by subsidiary undertaking)	100	Non-trading
Sacred Heart Records Limited	100	Non-trading
EMI UK Holdings Limited	100	Holding company
EMI Records Limited	100	Record company
EMI Music Publishing Limited	100	Music publishing company

All of the above companies are registered in England and Wales.

Virgin Records Limited

NOTES TO THE ACCOUNTS at 31 March 1999

11. STOCK

	1999 £	1998 £
Finished goods and goods for resale	1,181,539	1,224,286

12. DEBTORS

	1999 £	1998 £
Trade debtors	21,355,836	2,993,877
Amounts owed by group undertakings	369,972,045	429,011,484
Other debtors	4,982,843	4,421,141
Prepayments and accrued income	1,449,884	14,476
	397,760,608	436,440,978

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.

13. CREDITORS: amounts falling due within one year

	1999 £	1998 £
Bank loans and overdrafts	18,493,168	1,845,426
Trade creditors	37,812,757	47,069,682
Amounts owed to group undertakings	123,814,085	185,043,660
Amounts owed to subsidiary undertakings	10,184,463	10,184,463
Taxation and social security	—	243,375
Other creditors	865,030	1,345,287
Accruals and deferred income	3,759,698	6,267,643
	194,929,201	251,999,536

14. SHARE CAPITAL

	1999 £	1998 £
Authorised:		
Ordinary shares of £1 each	1,200,000,000	1,200,000,000
	DM	DM
'A' Fixed Rate Cumulative Redeemable Preference Shares 500,000,000 shares DM1 each	500,000,000	500,000,000
'B' Fixed Rate Cumulative Redeemable Preference Shares 150,000,000 shares DM1 each	150,000,000	150,000,000
	650,000,000	650,000,000

Virgin Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1999

14. SHARE CAPITAL (continued)

	<i>FFr</i>	<i>FFr</i>
'C' Cumulative Convertible Participating Preference Shares of FFr 10 each	5,000,000,000	5,000,000,000
'D' Participating Preference Shares of FFr 10 each	1,500,000,000	1,500,000,000
	<u>6,500,000,000</u>	<u>6,500,000,000</u>

The authorised share capital was increased as above on 22 May 1997.

The 'A' preference shares carry a fixed cumulative preferential dividend of 6% per annum on each fully paid up share, payable annually on 1 June each year and rank for dividend in priority to any other class of share.

The 'B' preference shares carry a fixed cumulative preferential dividend of 6% per annum on each fully paid up share, payable annually on 1 June each year and rank for dividend after 'A' preference shares but in priority to any other class of share.

The 'C' preference shares carry a cumulative preferential participating dividend of between 4 – 6.5% (depending on net profit for the relevant year) on the nominal value of each share. This is payable annually, 14 days after the approval of the annual accounts by the members of the company and the dividend ranks after 'A' and 'B' preference shares but in priority to any other class of share.

The 'D' preference shares carry a non-cumulative preferential participating dividend of between 4–6.5% (depending on net profit for the relevant year) on the nominal value of each share. This is payable annually, 14 days after approval of the annual accounts by the members of the company and the dividend ranks after 'A', 'B' and 'C' preference shares but in priority to any other class of share.

On a winding up of the company, firstly 'A' and 'C' preference shareholders have the right to receive in preference to any other class of shareholder, amounts equal to the nominal value of each share and, in the case of 'A' preference shares, any unpaid or accrued dividends whether declared or not and, in the case of 'C' preference shareholders, any declared but unpaid dividends. Secondly, 'B' and 'D' preference shareholders rank after 'A' and 'C' preference shareholders but have the right to receive, in preference to any other class of shareholder, amounts equal to the nominal value of each share and, in the case of 'B' preference shares, any unpaid or accrued dividends whether declared or not and, in the case of 'D' preference shares, any declared but unpaid dividends. Thirdly, in repaying *pari passu* to holders of ordinary shares they have the right to the nominal value of each share plus any unpaid dividends. Fourthly, in paying to the holders of 'C' and 'D' preference shares they have the right to a further amount of 4% of the nominal value of each share. Any residual balance is to be paid to ordinary shareholders.

Each member holding one or more ordinary share, 'A', 'B', 'C' and/or 'D' preference shares is entitled to one vote on a show of hands, or in the case of a poll, shall have one vote for each ordinary share, one vote for every two 'A' preference shares, one vote for every two 'B' preference shares, one vote for every 'C' preference share and one vote for every 'D' preference share.

The company shall have the right at any time after 22 March 2001 to redeem all or any of the 'A' and 'B' preference shares. On giving not less than three months notice to the company, in writing, the holders of 'A' and 'B' preference shares have the right to require all or any of the shares to be redeemed by the company. Shares are redeemable at *par* plus all arrears and accruals of dividends payable thereon.

In the event of a sale or failure of the company to pay dividends for two consecutive financial periods, holders of 'C' and 'D' shares can request conversion of their shares to ordinary shares of FFr 10 each.

Virgin Records Limited

NOTES TO THE ACCOUNTS at 31 March 1999

14. SHARE CAPITAL (continued)

	1999 £	1998 £
Allotted, called up and fully paid:		
Ordinary shares of £1 each	700,010,000	700,010,000
Preference 'A' shares of DM 1 each	84,444,444	84,444,444
Preference 'B' shares of DM 1 each	4,882,000	4,882,000
Preference 'C' shares of FFfr 10 each	106,599,000	106,599,000
	<u>895,935,444</u>	<u>895,935,444</u>

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 FFfr10 each were issued to EMI Group Participations SA at par. In March 1998 the Preference shares were re-nominated into Sterling at their 31 March 1997 value.

The value of the DM 1 Preference 'B' shares represents the entitlement to bonus shares on the existing DM 1 Preference 'A' covering the period 22 March 1996 to 31 May 1997. These were issued to EMI Group Germany GmbH.

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Profit and loss account £	Total shareholders' funds £
At 1 April 1997	484,454,444	153,186,770	637,641,214
Share capital issued during the year	411,481,000	—	411,481,000
Profit for the year	—	72,348,805	72,348,805
Dividend paid	—	(77,585,265)	(77,585,265)
At 31 March 1998	<u>895,935,444</u>	<u>147,950,310</u>	<u>1,043,885,754</u>
Share capital issued during the year	—	—	—
Profit for the year	—	114,677,349	114,677,349
Dividend paid	—	(107,315,000)	(107,315,000)
At 31 March 1999	<u>895,935,444</u>	<u>155,312,659</u>	<u>1,051,248,103</u>

Virgin Records Limited

NOTES TO THE ACCOUNTS at 31 March 1999

16. FINANCIAL COMMITMENTS

The group has commitments, which are largely performance related, to pay advances to artistes and repertoire owners amounting to approximately £68,179,000 at 31 March 1999 (1998 – £70,455,000).

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

	1999 £	1998 £
Plant, equipment and vehicles:		
Expiring in the first year	71,970	136,373
Expiring in the second to fifth years inclusive	185,268	278,688
	<u>257,238</u>	<u>415,061</u>

17. CAPITAL EXPENDITURE

No capital expenditure has been contracted for or approved by the directors for the company at 31 March 1999(1998 – £nil).

18. 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.

19. 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.

20. 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 1999 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