

35

VIRGIN RECORDS LIMITED

ACCOUNTS

27 JANUARY 1980

TRAIN SCOTT
Chartered Accountants



Hw

Annual Report and Statement of Accounts for the thirteen months
ended 27 January 1980

CONTENTSPage

| | |
|----|--|
| 2 | Report of the Directors |
| 4 | Report of the Auditors |
| 5 | Consolidated Balance Sheet |
| 6 | Consolidated Profit and Loss Account |
| 7 | Company Balance Sheet |
| 8 | Notes forming part of the Accounts |
| 14 | Statement of Source and Application of Funds |

DIRECTORS

R C N Branson
N M Powell
J S Draper
K M Berry
J H Ware

SECRETARY

N M Powell

REGISTERED OFFICE

2 Vernon Yard
119 Portobello Road
London W11

AUDITORS

Train Scott
Chartered Accountants
1 Sandall Street
London SE1 8UH

REPORT OF THE DIRECTORS

To be presented to the Members of the Company
at the Annual General Meeting

The directors submit their annual report and the audited accounts for the thirteen month period ended 27 January 1980.

Results

| | £ |
|---|------------------------|
| The Group profit for the period before taxation amounts to | 485,385 |
| Less Taxation | <u>280,126</u> |
| Group Profit after taxation | 205,259 |
| Balance brought forward | <u>699,495</u> |
| Leaving a balance to be carried forward of | <u><u>£904,754</u></u> |

Principal Activities

The group produces and distributes records and cassettes on the 'Virgin' and 'Dindisc' labels and collects royalties from the registration and licencing of songs.

Subsidiary Companies

Wholly owned subsidiary companies, Dindisc Limited and Dinsong Limited commenced trading with effect from 1 September 1979.

Exports

The value of goods exported from the United Kingdom and income received from overseas amounted to £1,542,000. (Year to 31.12.1978 £1,655,000.)

Fixed Assets

No formal valuation has been made, but, in the opinion of the directors, the market value of the Group's freehold and leasehold properties substantially exceeds the book value.

Directors

The directors of the company during the period and their interest in the ordinary shares of the company and the holding company were as follows:-

| | Virgin Holdings Ltd | | | |
|-------------------------|---------------------|---------------------------|----------------|---------------------------|
| | <u>27.1.80</u> | <u>1.1.79</u> | <u>27.1.80</u> | <u>1.1.79</u> |
| | | or date of appointment | | or date of appointment |
| R C N Branson | - | - | 6,000 | 6,000 |
| M Powell | - | - | 4,000 | 4,000 |
| J S Draper | 20 | 20 | - | - |
| K M Berry | - | - | - | - |
| J H Ware (app'd 9.4.79) | - | - | - | - |

REPORT OF THE DIRECTORS

(Continued)

Auditors

Train Scott have indicated their willingness to continue in office.

By Order of the Board

N M POWELL

Secretary

2 Vernon Yard
119 Portobello Road
London W11

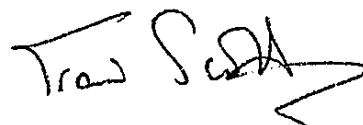
REPORT OF THE AUDITORSTO THE MEMBERS OF VIRGIN RECORDS LIMITED

We have examined the accounts set out on pages 5 to 14 which have been prepared on the basis of the accounting policies set out on pages 8 and 9.

In our opinion, these accounts give, a true and fair view of the state of affairs of Virgin Records Limited and, so far as concerns members of that company, of the group at 27 January 1980 and of the profit and of the source and application of funds for the period ended on that date, and comply with the Companies Acts 1948 and 1967.

1 Sandell Street
London SE1 8UH

10 October 1980

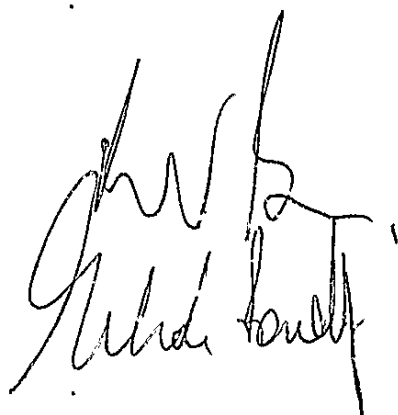


TRAIN SCOTT
Chartered Accountants

VIRGIN RECORDS LIMITED
and Subsidiary Companies
CONSOLIDATED BALANCE SHEET 27 JANUARY 1980

Page 5

| | Note | £ | £ | 31.12.1979 |
|--------------------------------------|------|------------------|-------------------|------------------|
| | | | | £ |
| Fixed Assets | 2 | | 320,428 | 268,173 |
| Loan to Holding Company | | | 269,500 | 117,000 |
| Investment in Fellow Subsidiaries | 5 | | <u>163</u> | <u>163</u> |
| | | | 590,191 | 285,341 |
| Current Assets | | | | |
| Stock | | 220,492 | | 165,460 |
| Debtors | | 2,379,201 | | 1,864,521 |
| Amounts due from Fellow Subsidiaries | | 503,164 | | 442,919 |
| Cash at Bank and in Hand | | <u>33,159</u> | | <u>40,930</u> |
| | | 3,136,016 | | 2,513,830 |
| Less Current Liabilities | | | | |
| Creditors | | 1,572,074 | | 1,425,184 |
| Amounts due to Fellow Subsidiaries | | 624,240 | | 485,735 |
| Bank Overdrafts | 9 | <u>355,039</u> | | <u>188,657</u> |
| | | <u>2,551,353</u> | | <u>2,099,576</u> |
| | | | 584,663 | 414,254 |
| | | | <u>£1,174,854</u> | <u>£699,595</u> |
| Financed by:- | | | | |
| Share Capital | 6 | | 100 | 100 |
| Reserves | | | 904,754 | 699,495 |
| Loan from Holding Company | 11 | | 20,000 | - |
| Loan | 10 | | <u>250,000</u> | <u>-</u> |
| | | | <u>£1,174,854</u> | <u>£699,595</u> |



R C N BRANSON

Directors

N M POWELL

VIRGIN RECORDS LIMITED
and Subsidiary Companies

Page 6

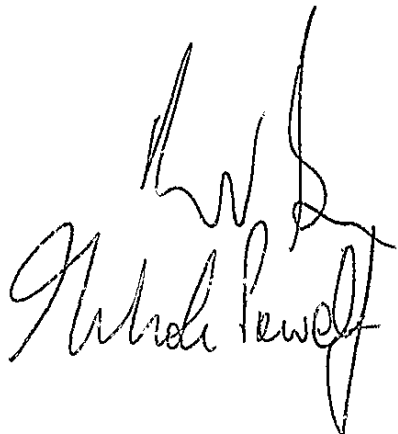
CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the thirteen month period ended 27 January 1980

| | <u>Note</u> | £ | £ | Year to 31.12.78 £ |
|------------------------------|-------------|------------------|------------------|--------------------------|
| Turnover | 3 | | <u>9,661,521</u> | <u>5,731,000</u> |
| Trading Profit | | | | |
| after charging/(crediting):- | | | 485,385 | 655,362 |
| Depreciation of Fixed Assets | | 80,534 | | 36,834 |
| Hire of Equipment | | 12,534 | | 3,332 |
| Directors Emoluments | | | | |
| Fees | | - | | - |
| Other Emoluments | 7 | 39,686 | | 22,647 |
| Auditors Remuneration | | | | |
| including expenses | | 12,300 | | 8,000 |
| Interest Receivable | | <u>(58,141)</u> | | <u>(37,321)</u> |
| Profit before Taxation | | | <u>485,385</u> | <u>655,362</u> |
| Taxation | 3 | | <u>280,126</u> | <u>267,736</u> |
| Profit after Taxation | | | <u>205,259</u> | <u>387,626</u> |
| Extraordinary Item | 4 | | <u>-</u> | <u>139,537</u> |
| Balance brought forward | | | 205,259 | 248,089 |
| Balance carried forward | | | <u>699,495</u> | <u>451,406</u> |
| Virgin Records Limited | | 1,036,972 | <u>904,754</u> | <u>699,495</u> |
| Subsidiary Companies | | <u>(132,218)</u> | | <u>699,752</u> |
| | | | <u>£904,754</u> | <u>£699,495</u> |

VIRGIN RECORDS LIMITED
BALANCE SHEET 27 JANUARY 1980

Page 7

| | Note | £ | £ | <u>31.12.78</u> £ |
|-----------------------------------|------|------------------|-------------------|----------------------|
| Fixed Assets | 2 | | 289,904 | 169,178 |
| Loan to Holding Company | | | 269,500 | 117,000 |
| Investment in Subsidiaries | 5 | | 380 | - |
| Investment in Fellow Subsidiaries | 5 | | 163 | 163 |
| Current Assets | | | | |
| Stock | 1 | 213,286 | | 165,460 |
| Debtors | 1 | 2,203,026 | | 1,864,521 |
| Amounts due from Group Companies | | 710,785 | | 442,919 |
| Cash at Bank and in Hand | | <u>33,159</u> | | <u>40,930</u> |
| | | <u>3,160,256</u> | | <u>2,513,830</u> |
| Less Current Liabilities | | | | |
| Creditors | | 1,538,509 | | 1,425,184 |
| Amounts due to Group Companies | | 544,771 | | 485,478 |
| Bank Overdrafts | 9 | <u>349,851</u> | | <u>188,657</u> |
| | | <u>2,433,131</u> | | <u>2,099,319</u> |
| | | | <u>727,125</u> | <u>414,511</u> |
| | | | <u>£1,287,072</u> | <u>£699,852</u> |
| Financed by:- | | | | |
| Share Capital | | | 100 | 100 |
| Reserves | | | 1,036,972 | 699,752 |
| Loan | 10 | | <u>250,000</u> | - |
| | | | <u>£1,287,072</u> | <u>£699,852</u> |



R C N BRANSON

N M POWELL

Directors

VIRGIN RECORDS LIMITED
and Subsidiary Companies
NOTES TO THE ACCOUNTS
27 JANUARY 1980

Page 2

1. Accounting Policies

a) Basis of Accounting

The attached accounts are prepared on the historical cost basis of accounting.

b) Composition of Consolidated Accounts

The consolidated accounts incorporate the accounts of the holding company and its subsidiaries. The holding company's share of profits less losses is included in the profit for the period attributable to the group.

c) 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 purpose of calculating depreciation, the effective useful life of the classes of assets currently held by the group is as follows:-

| <u>Asset Class</u> | <u>Estimated Useful Life</u> |
|----------------------|----------------------------------|
| Freehold Properties | 50 years |
| Leasehold Properties | Term of Lease |
| Plant and Equipment | 4 - 8 years |
| Motor Vehicles | 4 years |

d) Stocks

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

e) Deferred Taxation

Deferred taxation is provided for on the liability method, in respect of the tax reduction arising from all originating timing differences of a material amount other than any tax reduction which can be demonstrated with reasonable probability to continue for the foreseeable future.

f) Royalties

Royalties are dealt with on an accruals basis and provision made for the related royalties payable.

g) Artiste Advances

Artiste advances are reduced by actual earnings or if it is considered that future earnings, including estimated advances receivable, will not exceed the artiste advance then a provision for the estimated shortfall is raised.

VIRGIN RECORDS LIMITED
and Subsidiary Companies

Page 9

NOTES TO THE ACCOUNTS

27 January 1980

h) Licence/Royalty Advances

Advances received are reduced by actual earnings or written off over the remaining useful life of the contract when it can be demonstrated that future earnings will not exceed the net value of the advance.

VIRGIN RECORDS LIMITED
and Subsidiary Companies

Page 10

NOTES TO THE ACCOUNTS

27 JANUARY 1980

2. Fixed Assets

| <u>Group</u> | F/hold Properties (Short) | L/hold | Motor Vehicles | Plant and Equipment | Total |
|----------------------------|---------------------------------|----------------|-------------------|------------------------|-----------------|
| | £ | £ | £ | £ | £ |
| <u>Cost</u> | | | | | |
| 1 January 1979 | 62,253 | 16,984 | 89,986 | 82,007 | 251,230 |
| Transfers in/(out) | - | - | (3,275) | 5,689 | 2,414 |
| Additions | - | 1,152 | 119,121 | 130,645 | 250,918 |
| Disposals | - | - | (35,061) | - | (35,061) |
| 27 January 1980 | <u>£62,253</u> | <u>£18,136</u> | <u>£170,771</u> | <u>£218,341</u> | <u>£469,501</u> |
| <u>Depreciation</u> | | | | | |
| 1 January 1979 | 1,207 | 13,920 | 30,265 | 37,660 | 83,052 |
| Transfers in/(out) | - | - | (647) | 70 | (577) |
| Disposals | - | - | (14,036) | - | (14,036) |
| Charge for period | <u>1,207</u> | <u>150</u> | <u>42,200</u> | <u>36,977</u> | <u>80,534</u> |
| 27 January 1980 | <u>£2,414</u> | <u>£14,070</u> | <u>£57,782</u> | <u>£74,707</u> | <u>£148,973</u> |
| <u>Net Book Value 1980</u> | <u>£59,839</u> | <u>£4,066</u> | <u>£112,989</u> | <u>£143,636</u> | <u>£320,528</u> |
| <u>Net Book Value 1978</u> | <u>£61,046</u> | <u>£3,064</u> | <u>£59,721</u> | <u>£44,347</u> | <u>£168,178</u> |
| <u>Company</u> | | | | | |
| <u>Cost</u> | | | | | |
| 1 January 1979 | 62,253 | 16,984 | 89,986 | 82,007 | 251,230 |
| Transfers in/(out) | - | - | (12,235) | 5,689 | (6,546) |
| Additions | - | - | 107,773 | 109,340 | 217,113 |
| Disposals | - | - | (35,061) | - | (35,061) |
| 27 January 1980 | <u>£62,253</u> | <u>£16,984</u> | <u>£150,463</u> | <u>£197,036</u> | <u>£426,736</u> |
| <u>Depreciation</u> | | | | | |
| 1 January 1979 | 1,207 | 13,920 | 30,265 | 37,660 | 83,052 |
| Transfers in/(out) | - | - | (3,770) | 70 | (3,700) |
| Disposals | - | - | (14,036) | - | (14,036) |
| Charge for period | <u>1,207</u> | <u>-</u> | <u>37,904</u> | <u>32,405</u> | <u>71,516</u> |
| 27 January 1980 | <u>£2,414</u> | <u>£13,920</u> | <u>£50,363</u> | <u>£70,135</u> | <u>£136,832</u> |
| <u>Net Book Value 1980</u> | <u>£59,839</u> | <u>£3,064</u> | <u>£100,000</u> | <u>£126,901</u> | <u>£289,904</u> |
| <u>Net Book Value 1978</u> | <u>£61,046</u> | <u>£3,064</u> | <u>£59,721</u> | <u>£44,347</u> | <u>£168,178</u> |

VIRGIN RECORDS LIMITED
and Subsidiary Companies

Page 11

NOTES TO THE ACCOUNTS

27 JANUARY 1980

3. Turnover

Turnover includes sales to third parties and income from royalties and copyrights.

4. Extraordinary Item

27.1.1980

31.12.1978

Company

| | | |
|---------------------------------------|---|----------|
| Loan to fellow Subsidiary written off | - | £139,537 |
|---------------------------------------|---|----------|

5. Subsidiary Companies

- a) Those subsidiaries, all incorporated in England which, in the opinion of the directors materially affect the profits and assets of the Group are as follows:-

| | <u>Interest</u> <u>%</u> | <u>Nature of Business</u> |
|-----------------|-----------------------------|---------------------------|
| Dindisc Limited | 100 | Records and Tapes |
| Dinsong Limited | 100 | Music Publishing |

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

- c) Investment in fellow subsidiaries.

This investment represents the cost of the shares in those other subsidiaries of Virgin Holdings Ltd, all incorporated in England, in which the company has a substantial interest. The subsidiaries which are material in relation to this group are as follows:-

| | <u>Interest</u> <u>%</u> | <u>Nature of Business</u> |
|--------------------------------------|-----------------------------|------------------------------------|
| Manor Studios (Holdings) Ltd | 39 | Holding Co: Studio Division |
| Virgin Entertainments (Holdings) Ltd | 39 | Holding Co: Entertainment Division |
| Virgin Music Publishers Ltd | 45 | Music Publishers |

The results of these companies are incorporated in the consolidated accounts of the parent company, Virgin Holdings Limited.

VIRGIN RECORDS LIMITED
and Subsidiary Companies
NOTES TO THE ACCOUNTS
27 JANUARY 1980

Page 12

6. Share Capital

| | <u>27.1.1980</u> | <u>31.12.1978</u> |
|-----------------------------------|------------------|-------------------|
| | £ | £ |
| Ordinary Shares | | |
| Authorised, Issued and Fully Paid | | |
| 100 Shares of £1 each | <u>£100</u> | <u>£100</u> |

7. Directors Emoluments

| | | |
|-----------------------|----------------|----------------|
| Chairman | Nil | Nil |
| Highest Paid Director | <u>£22,493</u> | <u>£16,780</u> |
| Other directors | | |
| £0 - £5,000 | 2 | 2 |
| £15,001 - £20,000 | 1 | - |

8. Taxation

The taxation charge/(credit) is comprised of:-

| | <u>Group</u> | | <u>Company</u> | |
|-------------------|------------------|-------------------|------------------|-------------------|
| | <u>27.1.1980</u> | <u>31.12.1978</u> | <u>27.1.1980</u> | <u>31.12.1978</u> |
| Deferred Taxation | - | (89,096) | - | (89,096) |
| Group Relief | <u>280,126</u> | <u>356,832</u> | <u>280,126</u> | <u>356,832</u> |
| | <u>£280,126</u> | <u>£267,736</u> | <u>£280,126</u> | <u>£267,736</u> |

No provision has been made in these accounts for deferred taxation as it is thought probable that no actual tax liability will arise in the foreseeable future.

The deferred tax provision for timing differences at 31.12.77 has been written back as a taxation credit in the accounts for the year to 31.12.78.

The potential amount of taxation for all timing differences calculated on the liability method is as follows:-

| | <u>Group</u> | | <u>Company</u> | |
|--------------------------------|----------------|-----------------|----------------|-----------------|
| | <u>27.1.80</u> | <u>31.12.78</u> | <u>27.1.80</u> | <u>31.12.78</u> |
| | £ | £ | £ | £ |
| Accelerated Capital Allowances | 23,860 | - | 17,526 | - |
| Increase in Stock Values | <u>60,275</u> | <u>23,551</u> | <u>60,275</u> | <u>23,551</u> |
| | <u>£83,135</u> | <u>£23,551</u> | <u>£77,801</u> | <u>£23,551</u> |

VIRGIN RECORDS LIMITED
and Subsidiary Companies

Page 13

NOTES TO THE ACCOUNTS

27 JANUARY 1980

9. Bank Overdrafts

The bank overdrafts are secured by a charge on the assets of all the group companies.

10. Loan

| | | |
|---|-----------------|-----------------|
| <u>Unsecured Loan - repayable within five years</u> | <u>27.1.80</u> | <u>31.12.78</u> |
| Interest free loan | <u>£250,000</u> | - |

11. Loan from Holding Company

The holding company is Virgin Holdings Limited, a company incorporated in England, which has provided finance for a subsidiary company on a long term basis. The loan is secured on the assets of the company.

12. Artiste Advances

Artiste advances, net of provision for any shortfall of future earnings, included in debtors amount to £1,507,972 (1978 £139,985) for the group and £1,337,147 (1978 £139,985) for the company.

13. Post Balance Sheet Events

Agreements with international licencees for substantial advance royalties have been taken into account when assessing the recording artiste advances at 27 January 1980.

14. Contingent Liability

A guarantee has been given in respect of the bank overdrafts of other group companies.

VIRGIN RECORDS LIMITED
and Subsidiary Companies

Page 14

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
For the thirteen month period ended 27 January 1980

| | | Year to 31.12.78 |
|---|-----------|---------------------|
| <u>Source of Funds</u> | £ | £ |
| Profit for the period before tax | | 485,385 |
| Adjustment for items not involving the movement of funds | | 655,362 |
| Extraordinary Item | | |
| Depreciation | - | (139,537) |
| Total Source from Operations | 80,534 | 36,834 |
| | 565,919 | 552,659 |
| <u>Other Sources</u> | | |
| Loan from Holding Company | 20,000 | 491,543 |
| Proceeds from sale of fixed assets | 21,025 | 371,034 |
| Loan Received | 250,000 | - |
| | 291,025 | 862,577 |
| | 856,944 | 1,415,236 |
| <u>Application of Funds</u> | | |
| Purchase of fixed assets | 253,909 | 98,791 |
| Purchase of Investments | - | 39 |
| Loan Advance | 152,500 | - |
| Taxation Payment | 280,126 | 356,832 |
| Licencees Advances | - | 308,095 |
| | 686,535 | 763,757 |
| | 170,409 | 651,479 |
| <u>Increase/(Decrease) in Working Capital</u> | | |
| Stock | 55,032 | 71,035 |
| Debtors | 514,680 | 764,605 |
| Creditors | (146,890) | 81,046 |
| Inter Company Balances | (78,260) | 57,027 |
| | 344,562 | 973,713 |
| <u>Net Increase in Bank Borrowing</u> | £174,153 | £322,234 |