

VIRGIN RECORDS LIMITED

ACCOUNTS

31 JULY 1992

COMPANY'S REGISTERED NUMBER 1070953



VIRGIN RECORDS LIMITEDReport of the directors

The directors present their annual report and the audited accounts for the year ended 31 July 1992.

RESULTS

The results for the year are set out on page 4.

SIGNIFICANT EVENTS

On 1 June 1992 the company changed ultimate ownership as part of the acquisition of Virgin Music Group by THORN EMI plc.

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

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 (1991 : nil).

DIRECTORS

The directors of the company during the year were:

R C N Branson	(resigned 1 June 1992)
K M Berry	
J S Draper	(resigned 1 October 1992)
S G Lewis	(resigned 31 December 1992)
J Webster	(resigned 1 October 1992)
T Lyster	(resigned 1 October 1992)
S M Macleod	(appointed 1 October 1992)
W R Richardson	(resigned 1 October 1992)
A J Bates	(appointed 1 June 1992)
P M Conroy	(appointed 20 March 1992)

None of the directors had an interest in the shares of the company at 31 July 1992. At 31 July 1991 certain directors had an interest as a result of interests in the shares of the parent undertaking Virgin Music Group Limited. These are disclosed in that company's accounts. The interest was then disposed of as part of the change in ownership of the parent undertaking.

At 31 July 1992 the following director had an interest in a group company as set out below.

A.J.Bates 18,237 options over ordinary shares in THORN EMI plc.

VIRGIN RECORDS LIMITED

Report of the directors

AUDITORS

During the year KPMG Peat Marwick resigned as auditors and Ernst & Young were appointed in their place. In accordance with section 385 of the Companies Act 1985 a resolution to reappoint the auditors, Ernst & Young, will be proposed at the next annual general meeting.

By Order of The Board

S. Macleod.

4 Tontorden Street
Hanover Square
LONDON
W1A 2AY

S Macleod
Secretary

31 AUG 1993

VIRGIN RECORDS LIMITED

REPORT OF THE AUDITORS
TO THE MEMBERS OF VIRGIN RECORDS LIMITED

We have audited the accounts set out on pages 4 to 15 in accordance with Auditing Standards.

The company has not prepared group accounts, contrary to section 227 of the Companies Act 1985. Accordingly, we express no opinion as to whether the accounts give a true and fair view of the state of affairs of the group at 31 July 1992 or of its result for the year then ended.

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 July 1992 and of the profit for the year then ended and, and except for the matter referred to above, have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young
Chartered Accountants
Registered Auditor
London

31 AUG 1993

VIRGIN RECORDS LIMITEDProfit and loss account
for the year ended 31 July 1992

	<u>Notes</u>	Year ended 31 July <u>1992</u> £	Year ended 31 July (restated) <u>1991</u> £
Turnover			
Cost of sales	2	73,684,858 (34,429,775)	80,130,196 (38,387,157)
Gross profit		<u>39,255,083</u>	<u>41,743,039</u>
Prime costs			
Administrative expenses		(26,823,112) (9,303,155)	(15,168,110) (7,464,791)
Operating profit before exceptional items		<u>3,128,816</u>	<u>19,110,138</u>
Exceptional items	3	5,861,000	-
Operating profit after exceptional items		<u>8,989,816</u>	<u>19,110,138</u>
Exchange adjustments		(4,602,512)	1,728,773
Interest receivable and similar income	4	-	5,774,105
Interest payable and similar charges	5	(1,352,868)	(5,455,377)
Profit on ordinary activities before taxation	6	<u>3,034,736</u>	<u>21,157,639</u>
Tax on profit on ordinary activities	7	(2,356,322)	(6,956,599)
Retained profit for the financial year		<u>678,414</u>	<u>14,201,040</u>
Retained profit brought forward		<u>17,791,030</u>	<u>3,509,990</u>
Retained profit carried forward		<u>18,469,444</u> *****	<u>17,791,030</u> *****

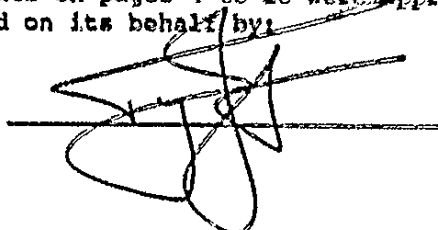
The notes on pages 6 to 15 form part of these accounts.

VIRGIN RECORDS LIMITEDBalance sheet as at 31 July 1992

	<u>Notes</u>	<u>31 July</u> <u>1992</u> £	<u>31 July</u> <u>1991</u> £
FIXED ASSETS			
Tangible assets	10	6,463,457	7,536,241
Investments	11	2,521,303	5,221,754
		<hr/>	<hr/>
		8,984,760	12,757,995
CURRENT ASSETS			
Stocks	12	378,000	1,036,432
Debtors	13	78,191,673	39,936,711
Cash at bank and in hand		690,935	22,606,629
		<hr/>	<hr/>
		79,260,608	63,579,772
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(64,427,480)	(55,906,737)
		<hr/>	<hr/>
NET CURRENT ASSETS		14,833,128	7,673,035
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		23,817,888	20,431,030
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15	-	(2,630,000)
PROVISIONS FOR LIABILITIES AND CHARGES	16	(8,338,444)	-
		<hr/>	<hr/>
		18,479,444	17,801,030
		*****	*****
CAPITAL AND RESERVES			
Called up share capital	17	10,000	10,000
Profit & loss account		18,469,444	17,791,030
		<hr/>	<hr/>
		18,479,444	17,801,030
		*****	*****

The notes on pages 6 to 15 form part of these accounts.

The accounts on pages 4 to 15 were approved by the Board of Directors on and signed on its behalf by:



DIRECTOR

31 AUG 1993

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 1992

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.

b) Group accounts

Group accounts have not been prepared because as a result of the acquisition by THORN EMI plc on 1 June 1992 the company has, since the year end, changed its accounting reference date to 31 March and will therefore be exempt under section 228 of the Companies Act 1985 in future 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

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 exchange differences are taken to profit and loss account.

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 1992

1. ACCOUNTING POLICIES (contd)

g) 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 recognized as income in the period in which such agreements expire.

h) Recording, production and developments 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 against income in the period in which they are incurred.

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.

2. TURNOVER

Turnover represents the amounts derived from the exploitation of music recordings and videos, stated net of value added tax.

	Year ended 31 July 1992 £	Year ended 31 July 1991 £
Analysis of turnover by geographical market:		
United Kingdom	46,505,710	43,575,220
Rest of the World	27,175,148	36,554,976
	<hr/>	<hr/>
	73,680,858	80,130,196
	=====	=====

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 1992

3. EXCEPTIONAL ITEMS

	Year ended 31 July 1992 £	Year ended 31 July 1991 £
Costs of rationalisation and restructuring	(8,704,000)	-
Release of provision against amounts due from subsidiary undertakings	15,563,000	-
Provision for diminution in value of freehold property	(998,000)	-
	<hr/>	<hr/>
	5,861,000	-
	*****	*****

4. INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable comprises the following:

	Year ended 31 July 1992 £	Year ended 31 July 1991 £
Interest receivable from group undertakings	-	3,510,295
Other interest	-	2,255,010
	<hr/>	<hr/>
	-	5,774,105
	*****	*****

5. INTEREST PAYABLE AND SIMILAR CHARGES

Interest payable comprises the following:

	Year ended 31 July 1992 £	Year ended 31 July 1991 £
Interest payable to group undertakings	-	3,105,037
Interest on other loans	1,352,560	2,349,540
	<hr/>	<hr/>
	1,352,560	5,455,377
	*****	*****

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 1992

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation
is stated after charging:

	Year ended 31 July 1992 £	Year ended 31 July 1991 £
Depreciation of tangible fixed assets	550,799	478,470
Hire of plant and machinery	46,886	42,257
Auditors' remuneration	36,000	37,400
Directors' emoluments	1,324,648	380,071
The costs of rationalisation and restructuring (see note 3) include a provision for the permanent diminution in value of fixed assets of £998,000.		

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge is comprised of:

	Year ended 31 July 1992 £	Year ended 31 July 1991 £
Corporation tax @ 33.67% in 1991	-	6,373,103
Adjustment to prior years	(488,059)	594,250
Overseas taxation	2,844,381	895,269
Double tax relief	-	(895,269)
Deferred taxation	-	(10,754)
	<hr/>	<hr/>
	2,356,322	6,956,599
	*****	*****

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, THORN EMI 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 accounts
for the year ended 31 July 1992

8. EMPLOYEE INFORMATION

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

	Year ended 31 July 1992	Year ended 31 July 1991
Selling	26	42
Marketing and production	63	86
Administration	46	66
	<hr/>	<hr/>
	135	194
	***	***

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

	Year ended 31 July 1992 £	Year ended 31 July 1991 £
Wages and salaries	5,000,999	3,940,359
Social security costs	527,758	400,586
Other pension costs	80,198	62,889
	<hr/>	<hr/>
	5,608,955	4,411,834
	*****	*****

9. 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 1992 £	Year ended 31 July 1991 £
For management services	1,257,909	360,206
Pension contributions	66,739	19,865
	<hr/>	<hr/>
	1,324,648	380,071
	*****	*****

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 1992**DIRECTORS' EMOLUMENTS (cont)**

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

	1992	1991
Emoluments of the chairman	Nil	Nil
Emoluments of the highest paid director	760,409	136,154

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

	1992	1991
£ 0 to £ 5,000	6	5
£ 100,001 to £ 105,000	-	1
£ 110,001 to £ 115,000	1	-
£ 115,001 to £ 120,000	-	1
£ 135,001 to £ 140,000	-	1
£ 155,001 to £ 160,000	1	-
£ 225,001 to £ 230,000	1	-
£ 760,001 to £ 765,000	1	-

10. TANGIBLE FIXED ASSETS

	Freehold land & buildings £	Motor vehicles £	Plant & fixtures £	Total £
COST				
1 August 1991	6,715,930	211,169	1,980,407	8,907,526
Additions	254,230	-	312,507	566,737
Disposals	-	(85,670)	(55,445)	(141,115)
31 July 1992	6,970,160	125,499	2,237,549	9,333,148
DEPRECIATION				
1 August 1991	150,053	77,068	1,144,164	1,371,285
Charge for the year	112,006	23,356	415,347	550,709
Provision for diminution	998,000	-	-	998,000
Disposals	-	(47,530)	(2,853)	(50,383)
31 July 1992	1,260,139	52,894	1,556,658	2,869,691
NET BOOK VALUE				
31 July 1992	5,710,021	72,545	680,891	6,463,457
31 July 1991	6,565,877	134,041	836,323	7,536,241

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 1992

11. INVESTMENTS

a) SHARES IN GROUP UNDERTAKINGS

	£
COST	
1 August 1991	8,950,489
Additions	430,000
Transferred to fellow subsidiary undertaking	(3,130,451)
	<hr/>
31 July 1992	6,250,038
	=====
PROVISIONS	
1 August 1991	3,728,735
Amount provided	-
	<hr/>
	3,728,735
	=====
NET BOOK VALUE	
31 July 1992	2,521,303
	=====
31 July 1991	5,221,754
	=====

The addition in the year was of the minority interest in Circa Records 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	100	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.

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 1992

12. STOCKS	31 July 1992 £	31 July 1991 £
Finished goods and goods for resale	378,000 *****	1,036,432 *****

13. DEBTORS	31 July 1992 £	31 July 1991 £
Trade debtors	14,040,619	25,620,577
Amounts owed by fellow subsidiary undertakings	19,997,825	10,142,386
Amounts owed by subsidiary undertakings	43,290,324	-
Other debtors	510,562	3,370,630
Prepayments and accrued income	362,343	803,118
	<hr/> 78,191,673 *****	<hr/> 39,936,711 *****

Trade debtors include amounts relating to artists' 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

	31 July 1992 £	31 July 1991 £
Bank loans and overdrafts	22,067,634	-
Trade creditors	19,722,903	18,083,900
Amounts owed to fellow subsidiary undertakings	12,850,901	35,009,637
Amounts owed to subsidiary undertakings	4,009,207	-
Other creditors including taxation and social security	4,325,471	1,301,516
Accruals and deferred income	1,451,194	340,728
Corporation tax	-	510,868
	<hr/> 64,427,406 *****	<hr/> 55,906,737 *****

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 199215. CREDITORS: AMOUNTS FALLING DUE AFTER MORE
THAN ONE YEAR

	31 July 1992 £	31 July 1991 £
Bank loans and overdrafts	-	2,030,000
Other creditors including taxation and social security	-	600,000
	<hr/>	<hr/>
	-	2,630,000
	*****	*****

16. PROVISIONS FOR LIABILITIES AND CHARGES

	31 July 1992 £	31 July 1991 £
Provision for rationalisation and restructuring costs	5,338,444	-
	*****	*****

17. CALLED UP SHARE CAPITAL

	31 July 1992 £	31 July 1991 £
Authorised, allotted, called up and fully paid 10,000 ordinary shares of £1 each	10,000	10,000
	*****	*****

18. CAPITAL EXPENDITURE APPROVED

No capital expenditure had been contracted for or approved by the directors for the company (1991 : Nil). However, the company, in the normal course of business, enters into contracts relating to pre-dust delivery from recording artists. It is not possible to quantify accurately such amounts.

19. PRIOR YEAR ADJUSTMENT

The prior year adjustment represents the effect of a change in accounting policy for exchange differences on intercompany payable to overseas subsidiary undertaking. In accordance with SSAP 20 'Foreign currency translation' the exchange differences on these payable are more appropriately taken to the profit and loss account. In the year ended 31 July 1991 a £1,728,773 gain had been taken directly to reserves and is now included in the exchange loss in the profit and loss account. There is no impact on the reserves brought forward at 1 August 1990 or 1991.

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 July 1992

20. COMMITMENTS UNDER OPERATING LEASES

	31 July 1992 £	31 July 1991 £
Annual commitments under operating leases expiring:		
Within one year	102,714	123,292
Between one and five years	249,327	278,893
	<hr/>	<hr/>
	352,041	402,185
	#####	#####

21. CONTINGENT LIABILITY

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

22. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking at 31 July 1992 was THORN EMI plc. The parent undertaking of the largest and smallest group of undertakings for which group accounts are drawn up and of which the company is a member is THORN EMI plc. Copies of THORN EMI plc's accounts can be obtained from:-

THORN EMI plc
4 Tenterden Street
Hanover Street
London
ENGLAND
W1A 2AY