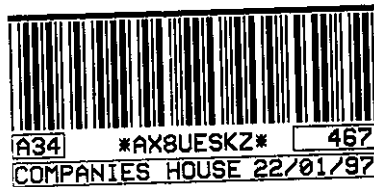


VIRGIN RECORDS LIMITED

REPORT AND ACCOUNTS

31 MARCH 1996

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 1996.

RESULTS AND DIVIDENDS

The results for the year are set out on page 5.

The directors recommended and paid a dividend amounting to £35,693,000 (1995: £33,701,000).

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 1996 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, THORN EMI plc, or any subsidiary undertakings thereof, were ordinary shares and options to purchase ordinary shares of THORN EMI plc, granted in accordance with the provisions of that company's share option schemes, as follows:-

	Ordinary shares	At 31 March 1996 Options over ordinary shares	Ordinary shares	At 1 April 1995 or date of appointment Options over ordinary shares
P.S. Robinson (appointed 15 September 1995)	608	1,614	608	1,614
J. Berry (appointed 15 September 1995)	-	-	-	-

VIRGIN RECORDS LIMITED

Report of the directors

DIRECTORS AND THEIR INTERESTS (contd)

Under the demerger arrangement, 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.

Mr J.P.A.Toone resigned as a director on 1 September 1995. Mr W.MacMillan resigned as a director on 15 September 1995.

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

FIXED ASSETS

The movements in fixed assets during the year are set out in notes 8 and 9 of the accounts.

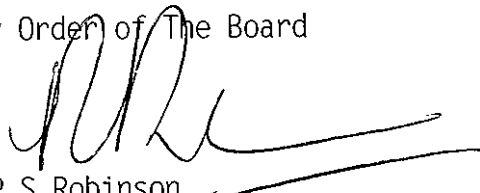
EVENTS SINCE THE BALANCE SHEET DATE

On 19 August 1996, the company's ultimate parent undertaking, THORN EMI plc, demerged into Thorn plc and EMI Group plc. Since that date the company's ultimate parent undertaking has been EMI Group plc.

AUDITORS

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

By Order of The Board


P.S. Robinson
Director

Kensal House
553-579 Harrow Road
LONDON
W10 4RH

17-1-97

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 17 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.

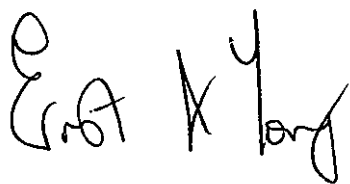
Basis of opinion

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.

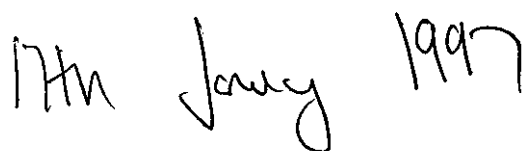
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. 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 1996 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



VIRGIN RECORDS LIMITED

Profit and loss account
for the year ended 31 March 1996

	<u>Notes</u>	<u>1996</u>	<u>1995</u>
		£	£
Turnover	2	164,168,102	142,766,699
Cost of sales		(87,926,360)	(76,754,774)
Gross profit		76,241,742	66,011,925
Prime costs		(31,122,486)	(26,659,275)
Administrative expenses		(10,469,536)	(13,591,367)
Other operating income		-	5,932,000
Operating profit		34,649,720	31,693,283
Interest receivable and similar income	3	5,024,259	2,967,576
Profit on ordinary activities before taxation	4	39,673,979	34,660,859
Tax on profit on ordinary activities	5	(2,428,164)	(2,616,556)
Profit on ordinary activities after taxation		37,245,815	32,044,303
Dividend paid		(35,693,000)	(33,701,000)
Retained profit/(loss) for the financial year		1,552,815	(1,656,697)
Retained profit brought forward		16,289,750	17,946,447
Retained profit carried forward	15	17,842,565	16,289,750

Statement of Total Recognised Gains and Losses
for the Year Ended 31 March 1996


There are no recognised gains and losses other than the profit attributable to the shareholders of the company of £37,245,815 in the year ended 31 March 1996 and profit of £32,044,303 for the year ended 31 March 1995.

VIRGIN RECORDS LIMITEDBalance sheet as at 31 March 1996

	<u>Notes</u>	<u>1996</u>	<u>1995</u>
		£	£
FIXED ASSETS			
Tangible assets	8	9,092,046	7,501,482
Investments	9	401,852,000	1,600,000
		<u>410,944,046</u>	<u>9,101,482</u>
CURRENT ASSETS			
Stock	10	1,196,323	1,184,991
Debtors	11	234,530,836	101,401,688
Cash at bank and in hand		941,332	20,818,726
		<u>236,668,491</u>	<u>123,405,405</u>
CREDITORS: Amounts falling due within one year	12	(144,788,777)	(115,459,933)
NET CURRENT ASSETS		<u>91,879,714</u>	<u>7,945,472</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		502,823,760	17,046,954
PROVISIONS FOR LIABILITIES AND CHARGES	13	(526,751)	(747,204)
		<u>502,297,009</u>	<u>16,299,750</u>
CAPITAL AND RESERVES			
Called up share capital	14	484,454,444	10,000
Profit and loss account	15	17,842,565	16,289,750
		<u>502,297,009</u>	<u>16,299,750</u>

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

17-1-97



DIRECTOR

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1996

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) 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

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.

VIRGIN RECORDS LIMITED

Notes to the accounts

for the year ended 31 March 1996

1. ACCOUNTING POLICIES (contd)

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 1996

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 copyright of recordings and videos relating to rights obtained through contracts made with artistes.

Analysis of turnover by geographical area:

	1996	1995
	£	£
United Kingdom	110,958,522	86,420,185
Rest of the World	53,209,580	56,346,514
	<hr/>	<hr/>
	164,168,102	142,766,699
	<hr/>	<hr/>

3. INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable comprises the following:

	1996	1995
	£	£
Bank deposit interest	114,689	111,825
Interest on Group loans	2,931,373	2,266,000
Bank interest	1,891,197	463,751
Other	87,000	126,000
	<hr/>	<hr/>
	5,024,259	2,967,576
	<hr/>	<hr/>

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	1996	1995
	£	£
Depreciation of tangible fixed assets	447,835	508,708
Hire of plant and machinery	413,155	403,808
Auditors' remuneration - Audit services	71,500	76,256
Rental of land and buildings	19,717	-
(Profit)/loss on disposal of fixed assets	(3,125)	2,457
Foreign exchange adjustments	290,218	709,104
	<hr/>	<hr/>

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1996

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge is comprised of:	1996	1995
	£	£
Overseas taxation	<u>2,428,164</u>	<u>2,616,556</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 taxation.

6. EMPLOYEE INFORMATION

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

	1996	1995
	No.	No.
Selling	35	30
Marketing and production	64	58
Administration	54	51
	<u>153</u>	<u>139</u>

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

	1996	1995
	£	£
Wages and salaries	6,277,884	5,213,938
Social security costs	570,064	467,648
Other pension costs	134,778	(14,227)
	<u>6,982,726</u>	<u>5,667,359</u>

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1996

7. DIRECTORS' EMOLUMENTS

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

	1996	1995
	£	£
For management services	149,158	136,821
Pension contributions	3,221	5,472
	<hr/>	<hr/>
	152,379	142,293
	<hr/>	<hr/>

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

	1996	1995
	£	£
Emoluments of the chairman	Nil	Nil
Emoluments of the highest paid director	45,479	72,230

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

	1996 No.	1995 No.
£ 25,001 to £ 30,000	1	-
£ 35,001 to £ 40,000	2	-
£ 45,001 to £ 50,000	1	-
£ 60,001 to £ 65,000	-	1
£ 70,001 to £ 75,000	-	1

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1996

8. TANGIBLE FIXED ASSETS

	Freehold land & buildings £	Motor vehicles £	Plant & fixtures £	Total £
COST				
1 April 1995	7,601,034	37,307	3,374,797	11,013,138
Additions	1,080,118	-	962,197	2,042,315
Disposals	-	-	(6,756)	(6,756)
	<hr/>	<hr/>	<hr/>	<hr/>
31 March 1996	8,681,152	37,307	4,330,238	13,048,697
	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION				
1 April 1995	817,465	29,104	2,665,087	3,511,656
Provided during the year	39,566	3,077	405,192	447,835
Disposals	-	-	(2,840)	(2,840)
	<hr/>	<hr/>	<hr/>	<hr/>
31 March 1996	857,031	32,181	3,067,439	3,956,651
	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUE				
31 March 1996	<u>7,824,121</u>	<u>5,126</u>	<u>1,262,799</u>	<u>9,092,046</u>
1 April 1995	<u>6,783,569</u>	<u>8,203</u>	<u>709,710</u>	<u>7,501,482</u>

9. INVESTMENTS

a) SHARES IN GROUP UNDERTAKINGS

	£
COST	
At 1 April 1995	7,009,938
Additions	415,788,973
	<hr/>
At 31 March 1996	<u>422,798,911</u>
PROVISIONS	
At 1 April 1995	5,409,938
Charged in year	15,536,973
	<hr/>
At 31 March 1996	<u>20,946,911</u>
NET BOOK VALUE	
At 31 March 1996	<u>401,852,000</u>
At 1 April 1995	<u>1,600,000</u>

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1996

9. INVESTMENTS (contd)

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 Labels Limited	100	" "
Leisure and Entertainment Limited	100	Holding Company
Virgin EG Limited	100	Non-trading
(held by subsidiary undertaking)		
Sacred Heart Records Limited	100	" "
EMI UK Holdings Limited	100	Holding Company

All the above companies are registered in England and Wales.

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.

10. STOCK	1996	1995
	£	£
Finished goods and goods for resale	<u>1,196,323</u>	<u>1,184,991</u>
11. DEBTORS	1996	1995
	£	£
Trade debtors	5,965,462	3,970,456
Amounts owed by group undertakings	224,871,153	95,334,183
Other debtors	3,634,221	2,097,049
Prepayments and accrued income	60,000	-
	<u>234,530,836</u>	<u>101,401,688</u>

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.

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1996

12. CREDITORS: Amounts falling due within one year	1996 £	1995 £
Bank loans and overdrafts	2,382,277	-
Trade creditors	26,782,927	25,570,689
Amounts owed to group undertakings	97,589,329	71,671,051
Amount owed to subsidiary undertakings	10,184,463	10,184,463
Taxation and social security	410,781	218,216
Other creditors	1,081,640	559,594
Accruals and deferred income	6,357,360	7,255,920
	<u>144,788,777</u>	<u>115,459,933</u>
	=====	=====
13. PROVISIONS FOR LIABILITIES AND CHARGES		
Provision for rationalisation and restructuring costs	1996 £	1995 £
Opening balance	747,204	841,000
Amounts charged against the provision	(220,453)	(93,796)
	<u>526,751</u>	<u>747,204</u>
	=====	=====
Balance at 31 March 1996		
14. SHARE CAPITAL		
	1996 £	1995 £
Authorised Ordinary shares of £1 each	600,000,000	10,000
	DM	DM
'A' Fixed Rate Cumulative Redeemable Preference Shares of DM1 each	500,000,000	-
'B' Fixed Rate Cumulative Redeemable Preference Shares of DM1 each	150,000,000	-
	<u>650,000,000</u>	<u>-</u>
	=====	=====

VIRGIN RECORDS LIMITEDNotes to the accountsfor the year ended 31 March 1996

14. SHARE CAPITAL (contd)

	1996 £	1995 £
Issued, allotted, called up and fully paid		
Opening balance:-		
10,000 ordinary shares of £1 each	10,000	10,000
Issue of 400,000,000 ordinary shares of £1 each	400,000,000	-
Issue of 190,000,000 preference 'A' shares of DM1 each	84,444,444	-
	<hr/>	<hr/>
Closing balance	484,454,444 <hr/>	10,000 <hr/>

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 and 150,000,000 'B' 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.

The preference shares carry the following rights and restrictions:

- entitlement to receive a fixed cumulative preferential dividend at the rate of 6% per annum net of any associated tax credit on each fully paid up share.
- the shares shall rank for dividend in the order of Preference 'A' Shares, Preference 'B' Shares and then Ordinary Shares.
- the preference dividend shall accrue on a daily basis and shall be paid annually on 1 June in each year. The dividend entitlement of the 'B' Preference Shares shall not in any relevant accounting period of the Company exceed 25% of the profits of the Company for that relevant accounting period.
- in the event of insufficient distributable profits then, for the first available profits for distribution arising thereafter, they be applied to paying off accumulated arrears of first the 'A' Preference Share dividends and then the 'B' Preference Share dividends.
- on a winding up of the Company, the assets are available for distribution in priority to holders of Preference 'A' Shares, then Preference 'B' Shares and then Ordinary Shares. The amount payable should be equal to the monies paid up and any unpaid arrears with respect to dividends of the preference shares. The amount paid to Preference 'B' Shareholders should not exceed 25% of the total available to equity holders.

VIRGIN RECORDS LIMITEDNotes to the accounts
for the year ended 31 March 1996

14. SHARE CAPITAL (contd)

- on a show of hands every member holding one or more preference shares shall have one vote. On a poll every member shall have one vote for every five preference shares of which he is holder. The holders of the 'A' Preference shares shall not in aggregate carry more than 10% of the total votes and the holders of the 'B' Preference shares shall not in aggregate carry more than 5% of the total votes.

- the Company shall have the right at any time after 22 March 2001 to redeem all or any of the outstanding or fully paid up 'A' or 'B' Preference Shares. The shareholders may redeem all or any of the shares after 22 September 1996.

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	SHARE CAPITAL	PROFIT AND LOSS ACCOUNT	TOTAL
	£	£	£
At 1 April 1994	10,000	17,946,447	17,956,447
Profit for the year	-	32,044,303	32,044,303
Dividend	-	(33,701,000)	(33,701,000)
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
At 31 March 1996	<u>484,454,444</u>	<u>17,842,565</u>	<u>502,297,009</u>

16. FINANCIAL COMMITMENTS

No capital expenditure had been contracted for or approved by the directors for the company (1995: £ Nil).

The group has commitments, which are largely performance related, to pay advances to artists and repertoire owners amounting to approximately £63,818,000 at 31 March 1996 (1995 : £38,531,000).

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

	1996	1995
	£	£
Plants, equipment and vehicles:		
Expiring in the first year	60,520	81,154
Expiring in the second to fifth years inclusive	245,940	214,752
	<u>306,460</u>	<u>295,906</u>

VIRGIN RECORDS LIMITED

Notes to the accounts

for the year ended 31 March 1996

17. CONTINGENT LIABILITY

The company has undertaken together with certain 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.

18. 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 1996 and of which the company was a member was THORN EMI plc, registered in England and Wales.

On 19 August 1996, the company's ultimate parent undertaking, THORN EMI plc, demerged into Thorn plc and EMI Group plc. Since that date the company's ultimate parent undertaking has been EMI Group plc, registered in England and Wales.

Copies of THORN EMI plc's accounts can be obtained from the company's new ultimate parent undertaking:-

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