

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**DIRECTORS' REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED

31 JANUARY 1996

Registered in England and Wales No. 2376810



**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

DIRECTORS AND ADVISERS

DIRECTORS

R C N Branson
T M Abbott (alternate S T M Murphy)

SECRETARY

D P Legge

REGISTERED OFFICE

120 Campden Hill Road
London W8 7AR

AUDITORS

KPMG
8 Salisbury Square
London EC4Y 8BB

PRINCIPAL BANKERS

Lloyds Bank Plc
72 Lombard Street
London EC3P 3BT

SOLICITORS

Freshfields
65 Fleet Street
London EC4Y 1HS

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

REPORT OF THE DIRECTORS

The Directors submit their report and audited financial statements for the year ended 31 January 1996.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

During the year and since the year end, the group's established trading operations have consolidated their positions in their respective markets and the directors believe that these companies are all well-placed to achieve further profitability for the foreseeable future.

RESULTS AND DIVIDENDS

The results of the group for the year are set out on page 5. The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The directors during the year were RCN Branson and TM Abbott.

Neither of the directors who held office during the financial year had any disclosable interests in the shares of the company or the group.

FIXED ASSETS

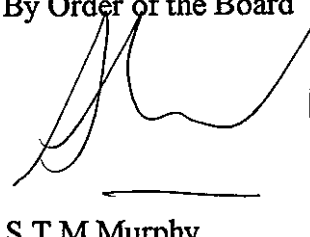
The movements in fixed assets are set out on pages 16 to 18.

AUDITORS

In accordance with section 384 of the Companies Act 1985 a resolution to re-appoint the auditors, KPMG, will be proposed at the Annual General Meeting.

5 July 1996

By Order of the Board



S T M Murphy
Director

120 Campden Hill Road
London W8 7AR

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In preparing those financial statements, 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 financial statements ;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**AUDITORS' REPORT TO THE MEMBERS OF
VIRGIN RETAIL GROUP LIMITED**

We have audited the financial statements on pages 5 to 25.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit of those statements, 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 January 1996 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

8 Salisbury Square
London EC4Y 8BB

11 July 1996

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JANUARY 1996**

	<u>Notes</u>	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Turnover - Continuing operations		34,551	27,487
Cost of sales		<u>(28,005)</u>	<u>(22,899)</u>
Gross profit		6,546	4,588
Distribution costs		(1,993)	(1,534)
Administrative expenses		(774)	(615)
Other operating income		<u>39</u>	<u>118</u>
Operating profit		3,818	2,557
Income from shares in associated undertakings		<u>4,276</u>	<u>2,787</u>
Profit on ordinary activities before interest	2	8,094	5,344
Net interest payable	3	(480)	(165)
Profit on ordinary activities before taxation	4	<u>7,614</u>	<u>5,179</u>
Taxation on profit on ordinary activities	7	(2,180)	(1,606)
Profit on ordinary activities after taxation		<u>5,434</u>	<u>3,573</u>
Minority interests		(86)	(46)
Profit for the financial year		<u>5,348</u>	<u>3,527</u>
Finance costs of non-equity shares	17	(750)	(750)
Retained profit for the year	18	<u>4,598</u>	<u>2,777</u>

The difference between reported and historical cost profits and losses is not material.

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JANUARY 1996**

	<u>Notes</u>	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Profit for the financial year	18	4,598	2,777
Exchange loss on consolidation of foreign subsidiary undertakings	18	(48)	(3)
Total recognised gains relating to the financial year		4,550	2,774

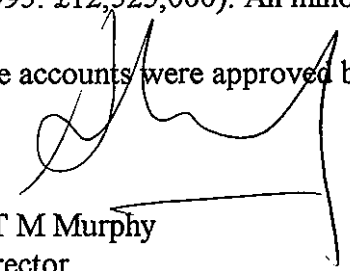
**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

CONSOLIDATED BALANCE SHEET AS AT 31 JANUARY 1996

	<u>Notes</u>	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
FIXED ASSETS			
Intangible assets	8	2,426	2,599
Tangible assets	9	408	471
Investment in associated undertakings	10	15,648	13,257
		<u>18,482</u>	<u>16,327</u>
CURRENT ASSETS			
Stock	11	7,950	4,520
Debtors	12	139,742	102,639
Cash at bank and in hand		560	794
		<u>148,252</u>	<u>107,953</u>
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(79,392)	(42,287)
NET CURRENT ASSETS		<u>68,860</u>	<u>65,666</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>87,342</u>	<u>81,993</u>
CREDITORS : AMOUNTS FALLING DUE AFTER ONE YEAR	14	(40)	(66)
PROVISION FOR LIABILITIES AND CHARGES	16	(917)	(928)
NET ASSETS		<u>86,385</u>	<u>80,999</u>
CAPITAL AND RESERVES			
Called up share capital	17	8,049	8,049
Share premium	18	40,461	40,461
Revenue reserves	18	37,394	32,094
SHAREHOLDERS' FUNDS		<u>85,904</u>	<u>80,604</u>
MINORITY INTERESTS		481	395
		<u>86,385</u>	<u>80,999</u>

The shareholders' interests are equity £72,629,000 (1995: £68,079,000) and non equity £13,275,000 (1995: £12,525,000). All minority interests are equity.

The accounts were approved by the Board of Directors on 5/7/96 and signed on its behalf by :


S T M Murphy
Director

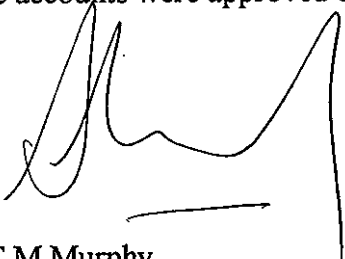
**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

COMPANY BALANCE SHEET AS AT 31 JANUARY 1996

	<u>Notes</u>	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
FIXED ASSETS			
Investment in subsidiary undertakings	10	6,010	6,010
Investment in participating interests	10	6,324	6,324
		<u>12,334</u>	<u>12,334</u>
CURRENT ASSETS			
Debtors	12	135,815	97,792
Cash at bank		490	708
		<u>136,305</u>	<u>98,500</u>
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(73,253)	(37,612)
		<u>63,052</u>	<u>60,888</u>
NET CURRENT ASSETS		<u>75,386</u>	<u>73,222</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
PROVISION FOR LIABILITIES AND CHARGES	16	(910)	(910)
		<u>74,476</u>	<u>72,312</u>
NET ASSETS			
CAPITAL AND RESERVES			
Called up share capital	17	8,049	8,049
Share premium	18	40,461	40,461
Revenue reserves	18	25,966	23,802
		<u>74,476</u>	<u>72,312</u>
SHAREHOLDERS' FUNDS			

The shareholders' interests are equity £61,201,000 (1995: £59,787,000) and non equity £13,275,000 (1995: £12,525,000).

The accounts were approved by the Board of Directors on 5/7/96 and signed on its behalf by :



S T M Murphy
Director

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JANUARY 1996**

	<u>Notes</u>	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	971	5,815
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		12	52
Interest paid		(1,863)	(2,526)
Interest element on finance lease rental payments		(6)	(13)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE		<u>(1,857)</u>	<u>(2,487)</u>
TAX (PAID)/REPAID		(188)	150
INVESTING ACTIVITIES			
Payments to acquire tangible fixed assets		(207)	(56)
Payments to acquire subsidiary undertakings (net of cash and cash equivalents)		0	(570)
Proceeds from sale of tangible fixed assets		31	14
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(176)</u>	<u>(612)</u>
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		<u>(1,250)</u>	<u>2,866</u>
FINANCING			
New loans	25	2,000	7,500
Financing repaid	25	(2,000)	(9,600)
Capital element of finance lease rental payments		(47)	(44)
NET CASH OUTFLOW FROM FINANCING		<u>(47)</u>	<u>(2,144)</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	23	<u>(1,297)</u>	<u>722</u>

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

1. ACCOUNTING POLICIES

The accounts have been prepared on the basis of the following significant accounting policies which have been applied consistently for the year under review, and in accordance with applicable accounting standards.

(a) Basis of Accounting

The accounts have been prepared under the historical cost convention.

(b) Basis of Consolidation

The group financial statements consolidate the accounts of the company and its subsidiary undertakings and include the group's share of the results and the post acquisition reserves of its associated undertakings. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary and associated undertakings acquired or disposed in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. The consolidated accounts are based on audited financial statements and unaudited management accounts of subsidiary and associated undertakings covering the period from the beginning of the year or, where applicable, from the date of acquisition, to 31 January 1996. Where material and applicable, adjustments have been made to the management accounts of associated undertakings to bring their accounting policies into line with those of the company.

In the company's accounts, investments in subsidiary and associated undertakings are stated at cost less any permanent diminution in value. Dividends received and receivable are credited to the profit and loss account.

(c) Turnover

Turnover represents amounts receivable for goods and services supplied to outside customers, excluding value added tax.

(d) Depreciation

Depreciation of fixed assets is provided on a straight line basis at rates calculated to write off the cost or valuation of each asset over its estimated useful life :

Leasehold property	-	over period of lease
Plant and machinery	-	over 4 years
Fixtures and fittings	-	over 4 to 5 years

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

1. ACCOUNTING POLICIES (Continued)

(e) Leased Plant and Machinery

Where plant and machinery is acquired under finance leases, the assets are capitalised at an amount representing the equivalent outright purchase price of such assets and included in tangible fixed 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 lease in proportion to the balance outstanding.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(f) Goodwill

Goodwill represents the excess of the purchase consideration for businesses acquired over the attributable net asset value at the date of acquisition. It is amortised over its useful economic life, which has been estimated at twenty years.

(g) Stocks

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

(h) Deferred Taxation

Deferred taxation, using the liability method, is provided at the rates of corporation tax which are expected to apply when the tax is estimated to be payable on all timing differences except those which it is considered will not reverse for the foreseeable future.

(i) Translation of Foreign Currencies

The assets, liabilities and results of foreign subsidiary undertakings denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the accounting period. Exchange differences in the opening net investments in those subsidiary undertakings and on the results for the year are dealt with through reserves.

(j) Pensions

The group operates defined contribution schemes for its employees and executives. The assets of the schemes are held separately from those of the group in independently administered funds. The pension charge represents contributions payable by the group to the funds.

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

2. TURNOVER, PROFIT BEFORE INTEREST AND NET ASSETS

a) Geographical analysis of turnover and profit before interest by destination

	Turnover		Profit before interest	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
United Kingdom	10,702	5,704	468	256
Rest of Europe	12,214	11,230	571	317
North America	3,019	2,765	156	97
Asia Pacific	10,517	8,385	543	294
Rest of the World	254	129	13	4
Central costs	0	0	2,067	1,589
Inter-segment sales	(2,155)	(726)	0	0
	<u>34,551</u>	<u>27,487</u>	<u>3,818</u>	<u>2,557</u>
Income from shares in associated undertakings			<u>4,276</u>	<u>2,787</u>
			<u>8,094</u>	<u>5,344</u>

b) Analysis of turnover and profit before interest by activity

	Turnover		Profit before interest	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Exporting	29,337	23,913	1,437	771
Wholesaling	7,369	4,300	314	197
Central costs	0	0	2,067	1,589
Inter-segment sales	(2,155)	(726)	0	0
	<u>34,551</u>	<u>27,487</u>	<u>3,818</u>	<u>2,557</u>
Income from shares in associated undertakings			<u>4,276</u>	<u>2,787</u>
			<u>8,094</u>	<u>5,344</u>

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

2. TURNOVER, PROFIT BEFORE INTEREST AND NET ASSETS (Continued)

c) Analysis of net assets by activity and geographical area

	1996 £'000	1995 £'000
Export	7,627	6,316
Wholesale	1,406	1,736
Central/other	68,086	73,650
	<u>77,119</u>	<u>81,702</u>
Net interest bearing assets/(liabilities)	9,266	(703)
	<u>86,385</u>	<u>80,999</u>
United Kingdom	75,969	80,612
Rest of Europe	1,150	1,090
	<u>77,119</u>	<u>81,702</u>
Net interest bearing assets/(liabilities)	9,266	(703)
	<u>86,385</u>	<u>80,999</u>

3. NET INTEREST PAYABLE

Net interest payable comprises the following :

	1996 £'000	1995 £'000
Bank interest and interest on loans wholly repayable within 5 years	(2,260)	(1,909)
Interest arising on finance leases	(6)	(13)
Other interest payable	(2,735)	(891)
	<u>(5,001)</u>	<u>(2,813)</u>
Less : Interest receivable on short-term bank deposits	12	8
Other interest receivable	4,509	2,640
	<u>(480)</u>	<u>(165)</u>

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	1996 £'000	1995 £'000
Depreciation of tangible fixed assets	208	193
Amortisation of intangible fixed assets	344	344
Operating lease rentals:		
- Land and buildings	265	114
- Hire of plant and machinery	14	10
- Other operating leases	0	10
Auditors' remuneration :		
- Audit fees	61	40
- Other fees	22	40
Gain on foreign exchange	(2,836)	(2,725)
Loss on sale of fixed assets	31	2
Rent receivable	(27)	(117)

5. EMPLOYEE INFORMATION

(a) The number of persons employed by the group was as follows :

	1996	1995
Production	30	17
Selling and distribution	92	80
Administration	23	20
	145	117

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

5. EMPLOYEE INFORMATION (Continued)

(b) The aggregate payroll costs were as follows :

	1996 £'000	1995 £'000
Wages and salaries	2,293	1,864
Social security costs	193	169
State pension costs	8	9
Other pension costs	43	38
	<u>2,537</u>	<u>2,080</u>

6. DIRECTORS' EMOLUMENTS

The emoluments paid directly to the directors of the company were £nil (1995 : £nil). A management charge is made to Virgin Retail Group Limited by Virgin Management Limited (a company which is controlled by the same shareholder directors) to cover these and other costs. The total emoluments paid to each of the directors of Virgin Retail Group Limited by Virgin Management Limited are disclosed in that company's accounts. It is not possible to allocate particular proportions of these emoluments to the management services provided to Virgin Retail Group Limited rather than other companies to which Virgin Management Limited also provides services.

7. TAXATION

The group's tax charge comprises :

	1996 £'000	1995 £'000
Corporation tax on profits for the year at 33% (1995 : 33%)	550	284
Net movement on deferred taxation (note 16)	(5)	797
Share of associated undertakings' tax charge	1,714	610
Overprovision of corporation tax in prior years	(79)	(85)
	<u>2,180</u>	<u>1,606</u>

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

8. INTANGIBLE FIXED ASSETS - GROUP

	Goodwill £'000
COST	
At 31 January 1995 and 31 January 1996	<u>3,481</u>
AMORTISATION	
At 31 January 1995	(882)
Charge for the year	<u>(173)</u>
At 31 January 1996	<u>(1,055)</u>
NET BOOK VALUE	
At 31 January 1996	<u>2,426</u>
At 31 January 1995	<u>2,599</u>

9. TANGIBLE FIXED ASSETS - GROUP

	Short Leasehold Land & Buildings £'000	Plant and Machinery £'000	Fixtures and Fittings £'000	Total £'000
COST				
At 31 January 1995	2	1,299	401	1,702
Additions	0	96	111	207
Disposals	0	(49)	(145)	(194)
At 31 January 1996	<u>2</u>	<u>1,346</u>	<u>367</u>	<u>1,715</u>
DEPRECIATION				
At 31 January 1995	0	(932)	(299)	(1,231)
Charge for the year	0	(162)	(46)	(208)
Disposals	0	27	105	132
At 31 January 1996	<u>0</u>	<u>(1,067)</u>	<u>(240)</u>	<u>(1,307)</u>
NET BOOK VALUE				
At 31 January 1996	<u>2</u>	<u>279</u>	<u>127</u>	<u>408</u>
At 31 January 1995	<u>2</u>	<u>367</u>	<u>102</u>	<u>471</u>

Included in the net book value of plant and machinery is £80,000 (1995: £138,000) in respect of assets held under finance leases and similar purchase contracts. Depreciation for the year on these assets was £16,000 (1995: £24,000).

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

10. FIXED ASSETS - INVESTMENTS

SHARES IN SUBSIDIARY UNDERTAKINGS

COMPANY

£'000

COST

At 31 January 1995 and 31 January 1996

6,010

The following were the principal direct subsidiary undertakings of Virgin Retail Group Limited as at 31 January 1996.

<u>Company</u>	<u>Country of registration</u>	<u>Percentage of Ordinary Share Capital Held</u>
Caroline International Limited	England & Wales	100%
Sound & Media Limited	England & Wales	50%

Caroline International Limited is a wholesale import/export company in music and other products.

Sound & Media Limited is a wholesaler of records, videos, tapes and compact discs.

The company also holds 100% of the issued preference share capital of Sound & Media Limited.

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

10. FIXED ASSETS - INVESTMENTS (Continued)

INVESTMENT IN ASSOCIATED UNDERTAKINGS

GROUP

	1996 £'000	1995 £'000
Premium on acquisition	2,776	2,947
Share of associated undertakings' net assets :		
Net goodwill	3,446	3,634
Fixed assets	18,222	16,703
Current assets	20,795	26,782
Current liabilities	(20,379)	(25,943)
Long term liabilities	(7,291)	(7,290)
Restructuring provision	(1,921)	(3,576)
Investment in associated undertakings	15,648	13,257

The group's share of post acquisition profits of associated undertakings at 31 January 1996 was £10,015,000 (1995 : £7,453,000).

COMPANY

	£'000
COST	
At 31 January 1995 and 31 January 1996	6,324

The following was the principal associated undertaking of Virgin Retail Group Limited as at 31 January 1996.

<u>Company</u>	<u>Country of Registration</u>	<u>Percentage of Ordinary Share Capital Held</u>
Virgin Retail Limited	England & Wales	25%

Virgin Retail Limited is a company in the business of retailing music and other products.

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

11. STOCK

The group's stock represents goods held for resale.

12. DEBTORS

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Trade debtors	7,521	4,922	9	9
Amounts owed by subsidiary undertakings	0	0	4,444	1,277
Amounts owed by associated undertakings	2,828	2,771	2,827	2,771
Amounts owed by parent company	47,273	44,183	47,273	44,183
Amounts owed by fellow subsidiary undertakings	78,269	46,930	78,027	46,676
Other debtors	1,754	1,679	1,405	1,052
Prepayments and accrued income	297	354	30	24
Deferred loan note	1,800	1,800	1,800	1,800
	<u>139,742</u>	<u>102,639</u>	<u>135,815</u>	<u>97,792</u>

The deferred loan note is recoverable after more than one year.

13. CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Unsecured loans and bank overdrafts	1,924	861	7	0
Secured loans	25,000	25,000	25,000	25,000
Trade creditors	2,726	2,280	0	0
Amounts owed to affiliated undertakings	44,816	11,326	44,816	11,326
Amounts owed to fellow subsidiary undertakings	1,421	1,072	1,421	944
Corporation tax	357	538	0	0
Other tax and social security	248	40	0	0
Other creditors	512	511	12	12
Finance lease obligations	20	41	0	0
Accruals and deferred income	2,368	618	1,997	330
	<u>79,392</u>	<u>42,287</u>	<u>73,253</u>	<u>37,612</u>

The secured loans of £25,000,000 (1995: £25,000,000) are secured on the company's investment in Virgin Retail Limited.

**VIRGIN RETAIL GROUP LIMITED
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**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

14. CREDITORS : AMOUNTS FALLING DUE AFTER ONE YEAR

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Finance lease obligations	40	66	0	0

15. LEASING COMMITMENTS

FINANCE LEASE OBLIGATIONS

	Plant and Machinery	
	1996	1995
	£'000	£'000
GROUP		
Finance leases which expire within :		
1 year	30	45
2 - 5 years	50	78
	<u>80</u>	<u>123</u>
Included in the above rentals due are amounts relating to finance charges of:	<u>20</u>	<u>16</u>
Rentals net of finance charges are shown on the balance sheet as follows:		
Creditors due within 1 year	20	41
Creditors falling due after more than 1 year	<u>40</u>	<u>66</u>
	<u>60</u>	<u>107</u>

OPERATING LEASE COMMITMENTS

	Land and Buildings		Plant & Machinery	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
GROUP				
Operating leases which expire within :				
1 year	0	28	4	15
2 - 5 years	0	26	7	3
Over 5 years	262	196	0	0
	<u>262</u>	<u>250</u>	<u>11</u>	<u>18</u>

**VIRGIN RETAIL GROUP LIMITED
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**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

16. PROVISION FOR LIABILITIES AND CHARGES

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Deferred capital gains tax	910	910	910	910
Deferred tax - other	7	18	0	0
	<u>917</u>	<u>928</u>	<u>910</u>	<u>910</u>

There are no material unprovided deferred tax liabilities in the company or the group (1995: £nil).

17. SHARE CAPITAL

AUTHORISED

	1996	1995
	£'000	£'000
1,000,000 "A" ordinary shares of 10p each	100	100
461,607 ordinary shares of US\$0.01 each	3	3
8,000,000 cumulative redeemable 9.375% preference shares of £1 each	<u>8,000</u>	<u>8,000</u>
	<u>8,103</u>	<u>8,103</u>

ALLOTTED AND FULLY PAID

	1996	1995
	£'000	£'000
461,607 "A" ordinary shares of 10p each	46	46
461,607 ordinary shares of US\$0.01 each	3	3
8,000,000 cumulative redeemable 9.375% preference shares of £1 each	<u>8,000</u>	<u>8,000</u>
	<u>8,049</u>	<u>8,049</u>

The preference shares are redeemable at a 5% premium at the company's option. A special resolution has to be passed by the holders of the preference shares to request the company to redeem the outstanding shares. In each financial year, the dividend distributable in respect of the preference shares is limited to the lower of 9.375% and one-third of the profits by law available for distribution. Any dividends consequently not paid, or not paid in full, are entitled to be received on a subsequent date. The accumulated unpaid and undeclared dividends of £4,875,000 (1995 : £4,125,000), together with the share redemption premium of £400,000 (1995 : £400,000), have been disclosed as non-equity interests within shareholders' funds.

The "A" ordinary shares carry no rights to dividends and no voting rights.

**VIRGIN RETAIL GROUP LIMITED
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**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

18. RESERVES

GROUP

	Share Premium £'000	Profit and Loss Account £'000	Total £'000
Balance at 31 January 1995	40,461	32,094	72,555
Retained profit for the year	0	4,598	4,598
Exchange differences on consolidation of foreign subsidiary undertakings	0	(48)	(48)
Unpaid preference dividend	0	750	750
Balance at 31 January 1996	40,461	37,394	77,855

COMPANY

	Share Premium £'000	Profit and Loss Account £'000	Total £'000
Balance at 31 January 1995	40,461	23,802	64,263
Retained profit for the year	0	1,414	1,414
Unpaid preference dividend	0	750	750
Balance at 31 January 1996	40,461	25,966	66,427

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the company has not been presented.

**VIRGIN RETAIL GROUP LIMITED
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**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1996**

19. RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

	1996 £'000	1995 £'000
Profit for the financial year	5,348	3,527
Other recognised gains and losses relating to the year (net)	(48)	(3)
Net addition to shareholders' funds	5,300	3,524
Opening shareholders' funds	80,604	77,080
Closing shareholders' funds	85,904	80,604

20. CONTINGENT LIABILITIES

The company and its fellow subsidiaries are involved in a number of litigation cases, some as claimant and some as defendant. The directors believe that there is no significant likelihood of any material loss arising from cases which they are defending and have therefore made no provision in respect of these. Equally, for reasons of prudence, the directors have not accrued any benefits in respect of those cases for which the company is claimant.

The company has given counter-indemnities to banks to the extent of £3,126,000 (1995 : £2,942,000) in respect of bank guarantees given in support of the operations of its fellow subsidiary undertakings.

21. PENSIONS

The group's employees in the UK participate in the state earnings related pension scheme (SERPS). Staff employed in the UK are also eligible to participate in additional voluntary schemes arranged through the Scottish Equitable which provide individual pension plans; the benefits payable are related to contribution levels. Group companies in the UK will contribute an amount equal to the contributions paid by employees up to a maximum of 5%.

Group companies are not responsible for making contributions on behalf of employees in non-UK based companies.

The pension charge for the year in the group profit and loss account is £51,000 (1995 : £47,000).

The group's contribution represents the only commitment group companies have to fund pension schemes.

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**NOTES TO THE ACCOUNTS
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22. RECONCILIATION OF OPERATING PROFIT TO CASH INFLOW FROM OPERATIONS

	1996 £'000	1995 £'000
Operating profit	3,818	2,557
Depreciation of tangible fixed assets	208	193
Amortisation of intangible fixed assets	344	344
Decrease in provisions	(6)	(12)
Increase in stocks	(3,430)	(483)
Increase in debtors	(30,229)	(4,566)
Increase in creditors	33,119	7,783
Other translation differences	(2,884)	(3)
Loss on sale of fixed assets	31	2
Net cash inflow from operating activities	<u>971</u>	<u>5,815</u>

23. ANALYSIS OF CASH AND CASH EQUIVALENTS

	1996 £'000	1995 £'000
Balance at start of year	(67)	(789)
Net cash (outflow)/inflow	(1,297)	722
Balance at end of year	<u>(1,364)</u>	<u>(67)</u>

24. ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	1996 £'000	1995 £'000
Cash at bank and in hand	560	794
Bank overdrafts	(1,924)	(861)
Total net cash and cash equivalents overdrawn at end of year	<u>(1,364)</u>	<u>(67)</u>

**VIRGIN RETAIL GROUP LIMITED
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**NOTES TO THE ACCOUNTS
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25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	1996 £'000	1996 £'000	1995 £'000	1995 £'000
	Share capital and premium	Loans	Share capital and premium	Loans
Balance at start of year	(48,510)	(25,000)	(48,510)	(27,100)
Cash inflow from financing	0	(2,000)	0	(7,500)
Financing repaid	0	2,000	0	9,600
Balance at end of year	(48,510)	(25,000)	(48,510)	(25,000)

26. ULTIMATE PARENT COMPANY

The ultimate parent company at 31 January 1996 is Virgin Retail (BVI) Limited, a company incorporated in the British Virgin Islands.

No other group accounts include the results of the company.