

VIRGIN RETAIL GROUP LIMITED

REPORT AND ACCOUNTS
FOR THE PERIOD ENDED
27TH JULY 1991

Registered in England No. 2376810



VIRGIN RETAIL GROUP LIMITED
DIRECTORS' REPORT AND ACCOUNTS
FOR THE PERIOD 1ST AUGUST 1990 - 27TH JULY 1991

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VIRGIN RETAIL GROUP LIMITED
DIRECTORS AND ADVISERS

DIRECTORS

R C N Branson
T M Abbott
R H F Devereux

SECRETARY

J S Cook

REGISTERED OFFICE

120 Campden Hill Road
London W8 7AR

AUDITORS

KPMG Peat Marwick
1 Puddle Dock
Blackfriars
London EC4V 3PD

PRINCIPAL BANKERS

Lloyds Bank Plc
72 Lombard Street
London EC3P 3BT

SOLICITORS

Freshfields
65 Fleet Street
London EC4Y 1HS

VIRGIN RETAIL GROUP LIMITED

Chairman's Report

The year ended July 31, 1991 has been an important year in the development of the Virgin Retail Group. After many years of being based exclusively in the UK, Virgin Retail had in the previous two years started to develop internationally. In the year ended July 31, 1991, for the first time, sales outside the UK have exceeded sales within the UK. This reflects the increasing importance that Virgin has placed on its international development.

INTERNATIONAL DEVELOPMENTS

The two principal focuses of expansions in the year under review have been continental Europe and Asia Pacific.

In continental Europe, stores were opened in Marseille and Bordeaux to build on the success of the Paris store and preparations were made for further stores in Milan, Frankfurt, Berlin, Vienna and Barcelona which have either already been opened since the year-end or will be opening very shortly. During the year, 20% in total of the continental European business was sold to three European investors to improve the capital base and to gain important European contacts.

Good progress was made in the Asia-Pacific region. In Australia a further store was opened in Adelaide. With existing stores located in Melbourne and Sydney, the strategically important conurbations of South Eastern Australia are now covered.

In September 1990, the first Virgin megastore was opened in Tokyo, Japan, the world's largest music market for a city and, apart from winning the "Nikkei Award" run by the Nihon Keizai Shimbun newspaper as the Best New Product in Japan, has become the most successful music store in the country. A joint venture partnership was formed with the major Japanese retail group, Marui Limited. The long term strategy is to open ten stores in Japan within five years.

There have also been extensive negotiations with several major Asian companies to form joint venture partnerships in other key territories including Singapore, Hong Kong and Korea.

UK DEVELOPMENTS

As for the UK and Ireland, Virgin's Megastores have, of course, been established for many years. In order to consolidate this position, after another solid year of performance in the year under review, the board decided that the best means of expansion would be under the form of a joint venture with W.H. Smith - one of the most respected retailers in the UK. As a result, in September 1991 W.H. Smith purchased from Virgin Retail Group Limited a 50% stake in Virgin Retail in the UK and Ireland. W.H. Smith obtained a share of the most important retailing brand name in our sector and Virgin gained the opportunity to obtain synergistic benefits by combining systems and expertise with the existing music and video retailing interests of W.H. Smith, together with a release of capital to assist in the world-wide expansion of the group.

Caroline International is the wholesale arm of the Retail group. Its main activity is the import into UK and export to other countries, notably Japan and the EC, of music-related product. Caroline has also had another solid year of profit. Sales were slightly reduced on the previous year but firm control of margins has enabled profit to be increased.

Caroline's principal priorities in the year ended July 1991 were the development of new markets for export into Far Eastern countries and the further development in the second year of operations of Caroline's new Spanish subsidiary. Caroline Espana has now consolidated its position as an importer of UK product and has started to develop its own export division as a result of worldwide demand for Spanish music.

CAPITAL STRENGTHENING

Of course, such an important world-wide expansion programme requires a considerable amount of investment in setting up management teams, building and launching new stores. The results for the year on page 7 partly show the effects of this investment and partly reflect the difficult trading experienced in France in the year. Initially the Gulf Conflict at the end of 1990 generated a reluctance by the French population to go in to public places and this then led to a general weakening of economic confidence in the country.

In order to remedy the consequent impact on the balance sheet and to ensure that the objective of achieving a world-wide retailing brand can be achieved, the following has taken place since the year-end:

1. The final tranches of the 20% sale of Virgin Retail Europe mentioned above have been drawn down.
2. The sale of 50% of Virgin Retail UK and Ireland to W.H. Smith as mentioned above.
3. Additional capital of £40.5m has been injected into Virgin Retail Group Limited by certain existing shareholders.

Clearly these transactions have completely changed the capital structure of the group. Therefore, in order to give a fairer reflection of the true picture of the group, a pro-forma balance sheet has been drawn up on page 3 which reflects the July 1991 balance sheet together with adjustments for the above three transactions and a revaluation of the remaining 50% stake in Virgin Retail UK and Ireland. Under normal accounting practice, this latter fair value adjustment will not be reflected in subsequent balance sheets.

In summary the board are very encouraged by the prospects for the coming years and believe that Virgin has the opportunity to become one of the very few truly international retailing brands in a sector which will be one of the major growth sectors in the world economy.

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Proforma Consolidated Balance Sheet as at 27th July 1991

	Actual 27 July 1991 £'000	Proforma 27 July 1991 £'000
FIXED ASSETS		
Intangible assets	22,015	16,600
Tangible assets	48,922	34,600
Investment in associated undertaking	68	27,600
	<u>71,005</u>	<u>78,800</u>
CURRENT ASSETS		
Stock	19,441	12,700
Debtors	13,614	18,000
Cash at bank and in hand	2,814	11,400
	<u>35,869</u>	<u>42,100</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(81,113)	(32,700)
NET CURRENT LIABILITIES	<u>(45,244)</u>	<u>9,400</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>25,761</u>	<u>88,200</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(24,302)	(11,800)
PROVISION FOR LIABILITIES AND CHARGES	(1,398)	(1,400)
	<u>61</u>	<u>75,000</u>
CAPITAL AND RESERVES		
Called up share capital	8,010	48,500
Reserves	(12,554)	19,500
SHAREHOLDERS' FUNDS	<u>(4,544)</u>	<u>68,000</u>
MINORITY INTERESTS	4,605	7,000
	<u>61</u>	<u>75,000</u>

VIRGIN RETAIL GROUP LIMITED

Report of the directors

The Directors submit their report and accounts for the period 1st August 1990 to 27th July 1991.

BUSINESS REVIEW

The Company acts as the ultimate holding company for a group operating a retail chain of music 'megastores' and the wholesale exporting of special edition records, tapes and compact discs.

RESULTS AND DIVIDENDS

The results of the group for the period are set out on page 7. The directors do not recommend the payment of a dividend.

FUTURE DEVELOPMENTS

The directors are considering further involvement with international trading partners to open new stores overseas. Further information on future developments is given in the Chairman's report on page 2.

The directors believe that the prospects for medium term profitability for the group are good.

DIRECTORS AND THEIR INTERESTS

The directors of the Company during the period and their interests in the shares of the Company are shown in the table below.

Name	Notes relating to the ordinary shares	27/7/91 10p ordinary shares	31/7/90 10p ordinary shares	27/7/91 & 31/7/90 £1 redeemable preference shares
R.C.H.Branson	2	87,470	87,770	8,000,000
J.S.Draper	3	18,320	16,883	4,000,000 (Resigned 23/6/92)
K.M.Berry	4	1,505	1,505	- (Resigned 15/7/92)
T.M.Abbott	5	1,164	1,164	-
R.H.F.Devereux	6	40,159	65,546	8,000,000

1. The total number of shares in which the directors were interested as at 27th July 1991 was 100,000 ordinary shares and 8,000,000 redeemable preference shares (100% of the issued share capital).
2. Of the 87,470 ordinary shares and 8,000,000 redeemable preference shares in which R.C.H.Branson was beneficially interested, 75,030 ordinary shares and all the 8,000,000 redeemable preference shares were held in Family Trusts.
3. Of the 18,320 ordinary shares and 4,000,000 redeemable preference shares in which J.S.Draper was interested, 15,359 ordinary shares and all the 4,000,000 redeemable preference shares were held in Family Trusts.
4. Of the 1,505 ordinary shares in which K.M.Berry was interested, 1,368 were held in Family Trusts.
5. Of the 1,164 ordinary shares in which T.M.Abbott was interested, 1,000 were held in Family Trusts.
6. All the 40,159 ordinary shares and 8,000,000 redeemable preference shares in which R.H.F.Devereux was interested were held in Family Trusts established by R.C.H.Branson.

VIRGIN RETAIL GROUP LIMITED
Report of the directors (continued)

7. By virtue of being the Trustees of Family Trusts established by R.C.N.Branson, J.S.Draper, K.M.Berry and T.M.Abbott, the following had as at 27th July 1991 non-beneficial interests in the shares listed below:-
- a) Morgan Grenfell Trustee Services (Guernsey) Limited, J.K.Blewett and J.C.Mann: 37,779 ordinary shares.
 - b) Morgan Grenfell Trustee Services (Guernsey) Limited: 7,800 ordinary shares.
 - c) Morgan Grenfell Trustee Services (Guernsey) Limited, J.K.Blewett and J.F.McKellar: 5,485 ordinary shares.
 - d) Abacus (C.I.) Limited, G.S.Loraine and H.L.Goldstone: 32,313 ordinary shares.
 - e) K.M.Berry and K.G.Castle: 921 ordinary shares.
 - f) Morgan Grenfell Trustee Services (C.I.) Limited, J.K.Blewett and J.C.Mann: 15,288 ordinary shares and 8,000,000 redeemable preference shares.
8. As at 27th July 1991 the Company owed the following, as Trustees of the Family Trusts established by R.C.N.Branson and J.S.Draper, the sums listed below:-
- a) Morgan Grenfell Trustee Services (C.I.) Limited, J.K.Blewett and J.C.Mann: £3,178,786.
 - b) Morgan Grenfell Trustee Services (Guernsey) Limited, J.K.Blewett and J.C.Mann: £869,581.
 - c) Morgan Grenfell Trustee Services (Guernsey) Limited, J.K.Blewett and J.F.McKellar: £576,427.
 - d) Morgan Grenfell Trustee Services (Guernsey) Limited: £96,264.
 - e) Abacus (C.I.) Limited, G.S.Loraine and H.L.Goldstone: £277,674.

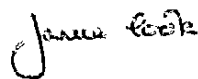
FIXED ASSETS

The movements in fixed assets are set out on pages 17 to 19.

AUDITORS

In accordance with section 385 of the Companies Act 1985 a resolution to reappoint the auditors, KPMG Peat Marwick, will be proposed at the Annual General Meeting.

By Order Of The Board



J S Cook
Secretary

120 Campden Hill Road,
London W8 7AR.

REPORT OF THE AUDITORS, KPMG PEAT MARWICK,
TO THE MEMBERS OF VIRGIN RETAIL GROUP LIMITED

We have audited the financial statements set out on pages 7 to 25 in accordance with Auditing Standards.

In our opinion, the financial statements give a true and fair view of the state of affairs of the group and the company as at 27th July 1991 and of the result and source and application of funds of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Peat Marwick

KPMG Peat Marwick
Chartered Accountants
Registered Auditor

1 Puddle Dock
Blackfriars
London EC4V 3PD

: September 1992

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Consolidated Profit and Loss Account
Period 1st August 1990 to 27th July 1991

	<u>NOTES</u>	1991 £'000	1990 £'000
Turnover	2	179,183	90,064
Cost of sales		(131,689)	(64,480)
Gross profit		<u>47,494</u>	<u>25,584</u>
Distribution costs		(17,693)	(5,912)
Administrative expenses		(40,718)	(18,804)
Operating profit		<u>(10,917)</u>	<u>868</u>
Other charges	3	(1,964)	(1,139)
Share of losses of associated undertaking		(263)	-
Loss on ordinary activities before interest		<u>(13,144)</u>	<u>(171)</u>
Net interest payable	4	(6,832)	(2,300)
Loss on ordinary activities before tax		<u>(19,976)</u>	<u>(2,471)</u>
Taxation	8	(240)	155
Loss on ordinary activities after tax		<u>(20,216)</u>	<u>(2,316)</u>
Minority interests		5,885	(43)
Loss before extraordinary items		<u>(14,331)</u>	<u>(2,359)</u>
Extraordinary items	9	-	712
Loss for the financial period	21	<u>(14,331)</u>	<u>(1,647)</u>

The notes on pages 11 to 25 form part of these accounts

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES
Consolidated Balance Sheet as at 27th July 1991

	NOTE	1991 £'000	1990 £'000
FIXED ASSETS			
Intangible assets	10	22,015	18,395
Tangible assets	11	48,922	38,954
Investment in associated undertaking	12	68	-
		<u>71,005</u>	<u>57,349</u>
CURRENT ASSETS			
Stock	13	19,441	16,210
Debtors	14	13,614	13,836
Cash at bank and in hand		2,814	4,898
		<u>35,869</u>	<u>34,944</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	15	(81,113)	(64,137)
NET CURRENT LIABILITIES		<u>(45,244)</u>	<u>(29,193)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>25,761</u>	<u>28,156</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	(24,302)	(15,297)
PROVISION FOR LIABILITIES AND CHARGES	19	(1,398)	(541)
		<u>61</u>	<u>12,318</u>
CAPITAL AND RESERVES			
Called up share capital	20	8,010	8,010
Revenue reserves	21	(16,107)	(1,745)
Capital reserve	22	3,553	-
SHAREHOLDERS' FUNDS		<u>(4,544)</u>	<u>6,265</u>
MINORITY INTERESTS		4,605	6,053
		<u>61</u>	<u>12,318</u>

The notes on pages 11 to 25 form part of these accounts.

The accounts on pages 7 to 25 were approved by the Board of Directors on 1 September 1992 and signed on its behalf by:

R C H Branson
Director

T M Abbott,
Director

Frederick

RB

VIRGIN RETAIL GROUP LIMITED
Balance Sheet as at 27th July 1991

	<u>NOTE</u>	1991 £'000	1990 £'000
FIXED ASSETS	11	271	4
Tangible assets	12	24,942	16,834
Investments		<u>25,213</u>	<u>16,838</u>
CURRENT ASSETS	14	14,731	13,619
Debtors	15	(32,234)	(17,222)
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		<u>(17,503)</u>	<u>(3,603)</u>
NET CURRENT LIABILITIES		<u>7,710</u>	<u>13,235</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(5,907)	(6,288)
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	<u>1,803</u>	<u>6,947</u>
CAPITAL AND RESERVES	20	8,010	8,010
Called up share capital	21	(6,207)	(1,063)
Revenue reserves		<u>1,803</u>	<u>6,947</u>
SHAREHOLDERS' FUNDS			

The notes on pages 11 to 25 form part of these accounts

The accounts on pages 7 to 25 were approved by the Board of Directors on 1 September 1992 and signed on its behalf by:

R C H Branson
Director

T M Abbott
Director

T M Abbott

R C H Branson

VIRGIN RETAIL GROUP AND SUBSIDIARIES
Consolidated Source and Application of Funds
for the period ended 27th July 1991

	1991 £'000	1990 £'000
SOURCE OF FUNDS		
Loss on ordinary activities before tax	(19,976)	(2,471)
Extraordinary items	-	712
	<u>(19,976)</u>	<u>(1,759)</u>
Adjustments for items not involving the movement of funds:		
Depreciation of tangible fixed assets	6,838	3,668
Amortisation of intangible fixed assets	1,964	1,039
Increase in provisions	624	19
Writedown of goodwill	135	-
Loss in associated companies	263	-
Exchange differences	(7)	(306)
	<u>(10,159)</u>	<u>2,661</u>
Total funds from operations		
Funds from other sources:		
Sale proceeds of fixed assets	26	102
Increase in long term funding	8,064	7,470
Net increase in obligations under finance leases	1,145	8,325
Issued share capital in holding company	-	8,010
Issue of new shares in subsidiary undertakings to minorities	9,353	3,030
Minority interests in net assets of subsidiaries purchased	-	3,318
	<u>8,429</u>	<u>32,916</u>
Total funds provided		
APPLICATION OF FUNDS		
Purchase of tangible fixed assets	(16,854)	(42,537)
Purchase of minority interests	(a) (1,369)	-
Purchase of intangible fixed assets	(5,715)	(19,413)
Purchase of tax liabilities and deferred tax provisions	-	751
Purchase of investment in associated undertaking	(331)	-
	<u>(15,840)</u>	<u>(28,283)</u>
Net application of funds		
INCREASE/(DECREASE) IN WORKING CAPITAL		
Stocks	3,231	16,210
Debtors	(222)	13,836
Creditors excluding bank loans, overdrafts and taxation	(4,349)	(42,366)
	<u>(1,340)</u>	<u>(12,320)</u>
Movements in net liquid funds:		
(Decrease)/increase in cash at bank	(2,084)	4,898
Increase in bank loans and overdrafts	(12,416)	(20,861)
	<u>(15,840)</u>	<u>(28,283)</u>

(a) included in this cost was £ 637,000 of goodwill

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the Accounts
for the period ended 27th July 1991

1. ACCOUNTING POLICIES

The accounts have been prepared on the basis of the following significant accounting policies which have been applied consistently for the period 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 consolidated accounts include the holding company and all significant subsidiaries and include the results of all subsidiaries from the date they were formed or acquired or to the date of disposal. The results of associated undertakings are accounted for on an equity accounting basis.

(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:

Freehold property	-	over 50 years
Leasehold property	-	over period of lease
Plant and machinery	-	over 10 to 15 years
Fixtures and fittings	-	over 3 to 6 years

(e) Launch Costs

Launch costs are defined as the non-recurring expenditure incurred in establishing new megastores, mainly represented by those costs incurred prior to the commencement of trading. Launch costs are capitalised and are amortised over a period of 5 years on a straight-line basis upon the opening of a store.

(f) Leased Plant and Equipment

Where plant and equipment 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.

(g) 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.

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the accounts
for the period ended 27th July 1991

ACCOUNTING POLICIES (Continued)

(h) Stocks and Work in Progress

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

(i) 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 continue for the foreseeable future.

(j) Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the accounting period. The results of foreign subsidiaries are translated at the average rates of exchange during the accounting period. Exchange differences in the opening net investments in those subsidiaries and on the results for the period are dealt with through reserves. Certain loans from shareholders maturing less than five years from the balance sheet date were denominated in US Dollars and hedged into sterling by means of foreign exchange contracts. By 2nd October 1990 all these loans were redenominated into sterling, in which currency they will remain until maturity. Exchange differences arising on these loans and foreign exchange contracts have been treated as part of the overall cost of these loans and amortised over the life of the loans.

(k) 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 cost charge represents contributions payable by the group to the funds.

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the accounts
for the period ended 27th July 1991

2. TURNOVER, LOSS BEFORE INTEREST AND TAX, AND NET ASSETS

Analysis by activity:

	Retail Europe		Retail Asia/Pacific		United Kingdom Exports		Group	
	1991 £'000	1990 £'000	1991 £'000	1990 £'000	1991 £'000	1990 £'000	1991 £'000	1990 £'000
TURNOVER								
Total sales	151,111	65,403	9,721	7,682	18,910	17,355	179,742	90,440
Inter-segment sales	-	-	(24)	(65)	(535)	(311)	(559)	(376)
Sales to third parties	<u>151,111</u>	<u>65,403</u>	<u>9,697</u>	<u>7,617</u>	<u>18,375</u>	<u>17,044</u>	<u>179,183</u>	<u>90,064</u>
(LOSS)/PROFIT BEFORE TAXATION								
Segment profit/(loss)	(6,781)	1,335	(1,775)	(780)	793	595	(7,763)	1,150
Central costs	-	-	-	-	-	-	(5,118)	(1,321)
Profit/(loss) before interest	(6,781)	1,335	(1,775)	(780)	793	595	(12,881)	(171)
Net interest	(2,468)	(1,208)	(184)	(120)	215	232	(2,437)	(1,096)
Unallocated interest	-	-	-	-	-	-	(4,395)	(1,204)
Segment profit/(loss) before taxation	<u>(9,249)</u>	<u>127</u>	<u>(1,959)</u>	<u>(900)</u>	<u>1,008</u>	<u>827</u>	<u>(19,713)</u>	<u>(2,471)</u>
Group share of the loss of associated undertakings	-	-	-	-	-	-	(263)	-
Group loss on ordinary activities before tax	-	-	-	-	-	-	<u>(19,976)</u>	<u>(2,471)</u>
NET ASSETS								
Segment net assets	8,456	15,300	1,971	(1,877)	661	2,301	11,088	15,724
Net unallocated liabilities	-	-	-	-	-	-	(11,027)	(3,406)
Total net assets	-	-	-	-	-	-	<u>61</u>	<u>12,318</u>

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the accounts
for the period ended 27th July 1991

2. Continued

Geographical analysis of turnover and profit before interest by destination:

	Turnover		Loss before interest	
	1991 £'000	1990 £'000	1991 £'000	1990 £'000
United Kingdom	61,496	53,274	796	928
Rest of Europe	99,482	21,210	(7,163)	718
North America	2,760	2,634	116	90
Asia Pacific	15,885	13,223	(1,517)	(590)
Rest of the World	119	99	5	4
Central costs	-	-	(5,118)	(1,321)
	<u>179,742</u>	<u>90,440</u>	<u>(12,881)</u>	<u>(171)</u>
Inter-segment sales	(559)	(376)	(263)	-
Group share of the loss of associated undertakings	-	-	(13,144)	(171)
	<u>179,183</u>	<u>90,064</u>		

3. OTHER CHARGES

	1991 £'000	1990 £'000
Amortisation of launch costs	1,218	500
Amortisation of goodwill	711	539
Amortisation of other intangible assets	35	-
	<u>1,964</u>	<u>1,039</u>

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the accounts
for the period ended 27th July 1991

4. NET INTEREST PAYABLE

Net interest payable comprises the following:

	1991 £'000	1990 £'000
Bank interest and interest on loans wholly repayable within 5 years	2,476	2,581
Interest arising from finance leases	716	7
Hire purchase interest	291	5
Interest payable - other	3,632	-
	<u>7,115</u>	<u>2,593</u>
	(283)	(293)
Less: interest receivable	<u>6,832</u>	<u>2,300</u>

5. LOSS ON ORDINARY ACTIVITIES BEFORE TAX

The loss on ordinary activities before tax is stated after charging:

	1991 £'000	1990 £'000
Depreciation of tangible fixed asset	6,838	3,668
Amortisation of intangible fixed assets	1,964	1,039
Hire of plant and machinery	196	177
Auditors' remuneration	314	150

6. EMPLOYEE INFORMATION

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

	1991	1990
Selling and distribution	1,487	1,260
Administration	139	130

(b) The aggregate payroll costs were as follows:

	1991 £'000	1990 £'000
Wages and salaries	19,257	9,172
Social security costs	4,529	1,116
Other pension costs	1,185	50
	<u>24,971</u>	<u>10,338</u>

The aggregate payroll costs for 1990 are only comprised of costs incurred from the date of acquisition of the trading subsidiaries which were acquired at various dates during the period. The costs for 1991 reflect a full years charge for these subsidiaries.

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the accounts
for the period ended 27th July 1991

7. DIRECTORS' EMOLUMENTS AND MATERIAL INTERESTS IN TRANSACTIONS

The emoluments paid directly to the directors of the company were nil. A management charge is made to Virgin Retail Group Limited by Virgin Holdings Limited (a company which is also 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 Holdings 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 Holdings Limited also provides services.

8. TAXATION

The Group's tax (charge)/credit comprises:

	1991 £'000	1990 £'000
Underprovision of UK corporation tax for 1990	(7)	-
Deferred taxation (charge)/credit	(233)	155
	<u>(240)</u>	<u>155</u>

The corporation tax charged for the year has been reduced by the surrender of group relief and losses brought forward.

9. EXTRAORDINARY ITEMS

	1991 £'000	1990 £'000
Profit on sale of demerged companies	-	771
Tax charge attributable to extraordinary profit	-	(59)
	<u>-</u>	<u>712</u>

The extraordinary item for the year ending 31 July 1990 relates to the following:-

The extraordinary profit represents the difference between the consideration paid to Virgin Communications Limited for the purchase of Virgin Management Limited on 1st September 1989 (following which the continuing subsidiaries of Virgin Retail Group Limited were sold by Virgin Management Limited to Virgin Retail Group Limited) less the consideration received from Virgin Group Limited on the sale of Virgin Management Limited on 21st September 1989.

The tax charge in relation to the extraordinary profit has been reduced by the surrender of group relief.

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the Accounts
for the period ended 27th July 1991

10. INTANGIBLE FIXED ASSETS

GROUP	Goodwill £'000	Launch Costs £'000	Licences/ formation Cost £'000	Total £'000
COST				
Brought forward at 1 August 1990	13,785	5,628	-	19,413
Reclassifications from tangible fixed assets	-	-	190	190
Additions	863	4,554	298	5,715
Writedown in value	(135)	-	-	(135)
At 27 July 1991	<u>14,513</u>	<u>10,182</u>	<u>488</u>	<u>25,183</u>
AMORTISATION				
Brought forward at 1 August 1990	539	479	-	1,018
Reclassifications from tangible fixed assets	-	-	156	156
Charge for the period	711	1,218	35	1,964
Exchange adjustments	23	5	2	30
At 27 July 1991	<u>1,273</u>	<u>1,702</u>	<u>193</u>	<u>3,168</u>
NET BOOK VALUE				
At 1 August 1990	<u>13,246</u>	<u>5,149</u>	<u>-</u>	<u>18,395</u>
At 27 July 1991	<u>13,240</u>	<u>8,480</u>	<u>295</u>	<u>22,015</u>

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the Accounts
for the period ended 27th July 1991

11. TANGIBLE FIXED ASSETS

(a) GROUP	Freehold Land and Buildings £'000	Leasehold Land and Buildings £'000	Plant and Machinery £'000	Fixtures and Fittings £'000	Assets in course of construction £'000	Total £'000
COST						
Brought forward at 1st August 1990	2,002	13,162	13,266	10,734	3,284	42,448
Additions	5,387	1,282	6,822	3,363	-	16,854
Disposals	-	-	(84)	-	-	(84)
Reclassifications	10,026	(793)	(6,008)	(275)	(3,140)	(190)
Exchange adjustments	(43)	150	21	(25)	(17)	86
At 27 July 1991	<u>17,372</u>	<u>13,801</u>	<u>14,017</u>	<u>13,797</u>	<u>127</u>	<u>59,114</u>
DEPRECIATION						
Brought forward at 1st August 1990	43	483	1,786	1,182	-	3,494
Charge for the period	1,483	602	2,889	1,864	-	6,838
Disposals	-	-	(58)	-	-	(58)
Reclassifications	468	-	(1,759)	1,135	-	(156)
Exchange adjustments	(5)	68	3	8	-	74
At 27th July 1991	<u>1,989</u>	<u>1,153</u>	<u>2,861</u>	<u>4,189</u>	<u>-</u>	<u>10,192</u>
NET BOOK VALUE						
At 1st August 1990	<u>1,959</u>	<u>12,679</u>	<u>11,480</u>	<u>9,552</u>	<u>3,284</u>	<u>38,954</u>
At 27th July 1991	<u>15,383</u>	<u>12,648</u>	<u>11,156</u>	<u>9,608</u>	<u>127</u>	<u>48,922</u>

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the Accounts
for the period ended 27th July, 1991

11 (a) continued.

Included in tangible fixed assets are assets acquired under hire purchase and finance lease arrangements with a net book value of £9,625,159 (1990: 7,432,943).

The depreciation charged in the year in the accounts of the subsidiaries on the assets acquired under hire purchase and finance lease arrangements was £921,253 (1990: £271,429).

(b) COMPANY	Plant and Machinery £'000
COST	5
Brought forward at 1st August 1990	
Additions	355
At 27 July 1991	<u>360</u>
DEPRECIATION	1
Brought forward at 1st August 1990	
Charge for the period	88
At 27 July 1991	<u>89</u>
NET BOOK VALUE	4
At 1st August 1990	
At 27th July 1991	<u>271</u>

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the Accounts
for the period ended 27th July 1991

12. FIXED ASSETS - INVESTMENTS

- a) The group's investment represents its share of the net assets in its associated undertaking, which was incorporated during the year.

b) COMPANY	Shares in subsidiary undertakings £000
COST	
At 1 August 1990	16,834
Additions:	
Purchase of minority interests	9,165
Investments in new stores	2,883
	(3,940)
Disposals	<u>24,942</u>
At 27 July 1991	

13. STOCK

The group's stock represents goods held for resale.

14. DEBTORS

	Group		Company	
	1991 £'000	1990 £'000	1991 £'000	1990 £'000
Trade debtors	4,580	3,553	-	-
Amounts owed by subsidiary undertakings	-	-	12,683	11,252
Other debtors	5,534	7,330	1,541	1,793
Prepayments and accrued income	3,500	1,444	507	574
Unpaid called up share capital	-	1,509	-	-
	<u>13,614</u>	<u>13,836</u>	<u>14,731</u>	<u>13,619</u>

Included in other debtors is an amount of £217,654 (1990: £783,939) which relates to rents paid in advance. The amount is recoverable after more than one year.

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the Accounts
for the period ended 27th July 1991

15. CREDITORS: AMOUNT FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1991 £'000	1990 £'000	1991 £'000	1990 £'000
Unsecured bank loans and overdrafts	33,221	20,805	23,221	6,617
Other unsecured loans	7,137	56	-	-
Trade creditors	23,705	28,889	-	-
Obligations under finance leases (note 18)	702	498	-	-
Amount owed to subsidiary undertakings	-	-	3,078	-
Corporation tax	419	412	-	-
Other tax and social security	3,003	1,371	-	-
Other creditors	10,996	10,465	5,395	10,069
Accruals and deferred income	1,930	1,641	540	536
	<u>81,113</u>	<u>64,137</u>	<u>32,234</u>	<u>17,222</u>

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	1991 £'000	1990 £'000	1991 £'000	1990 £'000
Other unsecured loans	15,534	7,470	5,407	6,288
Obligations under finance leases (note 18)	8,768	7,827	-	-
	<u>24,302</u>	<u>15,297</u>	<u>5,407</u>	<u>6,288</u>

All other unsecured loans are due for repayment within two to five years inclusive.

17. OTHER LEASE COMMITMENTS

The group had the following commitments under operating leases:

	Land and buildings		Other Assets	
	1991 £'000	1990 £'000	1991 £'000	1990 £'000
GROUP				
Operating leases which expire within:				
1 year	-	-	103	-
2-5 years inclusive	222	-	180	253
Over 5 years	6,071	7,072	-	-
	<u>6,293</u>	<u>7,072</u>	<u>283</u>	<u>253</u>

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the Accounts
for the period ended 27th July 1991

17. continued

Other assets
1991 1990
£'000 £'000

COMPANY
Operating leases which expire
within:
1 year
2-5 years inclusive

47	-
54	-
<u>101</u>	<u>-</u>

18. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases are as follows:

GROUP

1991	1990
£'000	£'000

Amounts due within:
1 year
2-5 years inclusive
Over 5 years

1,620	1,198
5,402	5,297
10,869	11,699

<u>17,891</u>	<u>18,194</u>
(8,421)	(8,766)

Less: Finance charges allocated to future periods

<u>9,470</u>	<u>9,408</u>
-	(1,083)

Less: Undrawn amount of finance leases

<u>9,470</u>	<u>8,325</u>
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Shown under creditors as:

Obligations under finance leases:
Due within one year
Due after more than one year

702	498
8,768	7,827
<u>9,470</u>	<u>8,325</u>

COMPANY

The company has no finance lease obligations (1990:nil)

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the Accounts
for the period ended 27th July 1991

19. PROVISION FOR LIABILITIES AND CHARGES

	Group	
	1991 £'000	1990 £'000
Deferred tax	755	522
Other provisions	643	19
	<u>1,398</u>	<u>541</u>

The movement on deferred taxation, which represents the maximum liability, comprises:

	At 1st August 1990 £'000	Transfer to profit and loss account £'000	At 27th July 1991 £'000
Excess of tax allowances over book depreciation of launch costs	1,964	861	2,825
Tax effect of losses carried forward	(1,442)	(628)	(2,070)
	<u>522</u>	<u>233</u>	<u>755</u>

The movement on the other provisions comprises:

	At 1st August 1990 £'000	Transfer to profit and loss account £'000	At 27th July 1991 £'000
Provision against: Redundancies	19	450	469
Fines	-	174	174
	<u>19</u>	<u>624</u>	<u>643</u>

20. SHARE CAPITAL

	1991 £'000	1990 £'000
Authorised, allotted and fully paid up: 100,000 ordinary shares of 10p each	10	10
8,000,000 cumulative redeemable preference shares of £1 each	<u>8,000</u> <u>8,010</u>	<u>8,000</u> <u>8,010</u>

The cumulative redeemable preference shares are redeemable 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, which may not be earlier than 31 July 1993.

21. STATEMENT OF RETAINED REVENUE RESERVES

	Group		Company	
	1991 £'000	1990 £'000	1991 £'000	1990 £'000
Profit and loss account:				
Balance at 1st August 1990	(1,745)	-	(1,063)	-
Retained loss for the period	(14,331)	(1,647)	(5,144)	(1,063)
Exchange translation differences	(31)	(98)	-	-
Balance at 27th July 1991	<u>(16,107)</u>	<u>(1,745)</u>	<u>(6,207)</u>	<u>(1,063)</u>

As permitted by Section 228(7) 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 AND SUBSIDIARIES

Notes to the Accounts
for the period ended 27th July 1991

22. CAPITAL RESERVE

	1991 £'000	1990 £'000
Capital reserve	<u>3,553</u>	<u>-</u>

This represents the excess of net assets acquired over the consideration paid for the purchase of 80% of the equity in Virgin Retail Europe NV, a group company formed in the year. This company was set up to act as an intermediate holding company to develop the megastore concept in continental Europe.

23. CAPITAL AND OTHER COMMITMENTS

Capital expenditure approved by the Directors and/or contracted for at 27th July 1991 was as follows:

	1991 £'000	1990 £'000
Approved by the Directors	<u>9,244</u>	<u>5,400</u>

The above amounts include contracted expenditure. Due to the large number of contracts and their nature, it is impractical to distinguish the amount that the group has contracted for at the balance sheet date.

24. 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 Sun Alliance 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 period in the group profit and loss account is £1,185,843.

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

VIRGIN RETAIL GROUP LIMITED AND SUBSIDIARIES

Notes to the Accounts
for the period ended 27th July 1991

25. SUBSEQUENT EVENTS

On 17 September 1991 Virgin Retail Group Ltd entered into an agreement with the W.H.Smith Group Plc under which the W.H.Smith Group Plc acquired 50% of the issued share capital of Virgin Retail Limited. This transaction realised an estimated post-tax profit of £6 million.

Subsequent to the year end, the shareholders of Virgin Retail Group Limited subscribed for a further £ 40.5 million of ordinary share capital in Virgin Retail Group Limited. This injection was used to reduce gearing and to allow for the future development of the group.

26. PRINCIPAL SUBSIDIARY UNDERTAKINGS

The following were the principal direct and indirect subsidiary undertakings of Virgin Retail Group Limited during the period ended 27th July 1991.

<u>Country of incorporation</u>	<u>Company</u>	<u>Effective group interest</u>
England & Wales	Virgin Retail Limited	100%
England & Wales	Salform Limited	100%
England & Wales	Caroline International Limited	100%
Ireland	Virgin Retail (Ireland) Limited	100%
Ireland	Harlandic Limited.	100%
France	Virgin Stores Holding S.A.	69%
France	Virgin Stores S.A.	47%
Australia	Virgin Retail Australia Pty. Ltd.	90%
Netherlands	Virgin Retail Europe N.V.	80%
Italy	Virgin Retail Italy S.r.L.	80%

All principal subsidiary undertakings are in the business of retailing music and other products except Caroline International Limited, which is a wholesale import/export company in music and other products.

The principal operations of the principal subsidiary undertakings above are carried out in their country of incorporation.

27. ASSOCIATED UNDERTAKING

The group has a 45% holding in Virgin Megastores Japan Limited, a music retailing company incorporated in Japan, whose financial year ends on 31st January.