

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**DIRECTORS' REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED

31 JANUARY 1995

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 1995.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

During the year, Virgin Retail Limited acquired 100% of Our Price Limited from W H Smith Group Plc in exchange for further shares in Virgin Retail Limited. This reduced the company's holding in the merged Virgin Retail Limited to 25%. The company also acquired 50% of the ordinary share capital and £400,000 of preference shares in Sound Solutions Limited (which subsequently changed its name to Sound & Media Limited), a wholesaler of records, videos, tapes and compact discs.

During the year and since the year end, the group's established and newly-acquired 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.

On 27 April 1994, S T M Murphy was appointed an alternate director for T M Abbott.

FIXED ASSETS

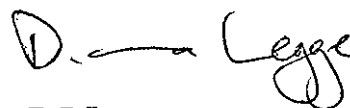
The movements in fixed assets are set out on pages 16 to 18.

AUDITORS

On 6 February 1995, our auditors changed the name under which they practise to KPMG and, accordingly, have signed their report in their new name.

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.

By Order of the Board



D P Legge
Secretary

23 April 1996

**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 26.

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 1995 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

23 April 1996

8 Salisbury Square
London EC4Y 8BB

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JANUARY 1995**

	<u>Notes</u>	Year to 31 January 1995 <u>£'000</u>	(Restated) Year to 31 January 1994 <u>£'000</u>
Turnover - Continuing operations		23,469	22,539
- Acquisitions		<u>4,018</u>	<u>0</u>
		27,487	22,539
Cost of sales		<u>(22,899)</u>	<u>(19,360)</u>
Gross profit		4,588	3,179
Distribution costs		(1,534)	(1,446)
Administrative expenses		(615)	(9,047)
Other operating income		<u>118</u>	<u>75</u>
Operating profit/(loss) - Continuing operations		2,297	(6,834)
- Acquisitions		<u>260</u>	<u>0</u>
		2,557	(6,834)
- Discontinued operations		<u>0</u>	<u>(405)</u>
		2,557	(7,239)
Income from shares in associated undertakings		2,787	(8,826)
Profit on disposal of associated undertakings		0	23,924
Profit on disposal of discontinued operations		0	24,167
Profit on ordinary activities before interest	2	<u>5,344</u>	<u>32,026</u>
Net interest (payable)/receivable	3	(165)	108
Profit on ordinary activities before taxation	4	<u>5,179</u>	<u>32,134</u>
Taxation on profit on ordinary activities	7	(1,606)	(237)
Profit on ordinary activities after taxation		<u>3,573</u>	<u>31,897</u>
Minority interests		(46)	0
Profit for the financial year		<u>3,527</u>	<u>31,897</u>
Finance costs of non-equity shares		(750)	(750)
Retained profit for the year	18	<u>2,777</u>	<u>31,147</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 1995**

	<u>Notes</u>	Year to 31 January 1995 <u>£'000</u>	Year to 31 January 1994 <u>£'000</u>
Profit for the financial year	18	2,777	31,897
Exchange (loss)/gain on consolidation of foreign subsidiary undertakings	18	(3)	156
Total recognised gains relating to the financial year		<u>2,774</u>	<u>32,053</u>

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

CONSOLIDATED BALANCE SHEET AS AT 31 JANUARY 1995

	<u>Notes</u>	<u>1995</u> <u>£'000</u>	<u>1994</u> <u>£'000</u>
FIXED ASSETS			
Intangible assets	8	2,599	2,510
Tangible assets	9	471	274
Investment in associated undertakings	10	13,257	11,253
		<u>16,327</u>	<u>14,037</u>
CURRENT ASSETS			
Stock	11	4,520	2,826
Debtors	12	102,639	95,060
Cash at bank and in hand		794	55
		<u>107,953</u>	<u>97,941</u>
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(42,287)	(34,784)
NET CURRENT ASSETS		<u>65,666</u>	<u>63,157</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		81,993	77,194
CREDITORS : AMOUNTS FALLING DUE AFTER ONE YEAR	14	(66)	0
PROVISION FOR LIABILITIES AND CHARGES	16	(928)	(114)
NET ASSETS		<u>80,999</u>	<u>77,080</u>
CAPITAL AND RESERVES			
Called up share capital	17	8,049	8,049
Share premium	18	40,461	40,461
Revenue reserves	18	32,094	28,570
SHAREHOLDERS' FUNDS		80,604	77,080
MINORITY INTERESTS		395	0
		<u>80,999</u>	<u>77,080</u>

The shareholders' interests are equity £68,079,000 (1994: £65,305,000) and non equity £12,525,000 (1994: £11,775,000). All minority interests are equity.

The accounts were approved by the Board of Directors on 23rd April 1996 and signed on its behalf by :


S T M Murphy
Director

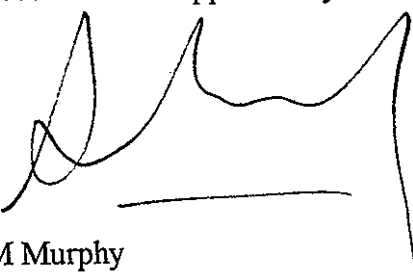
**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

COMPANY BALANCE SHEET AS AT 31 JANUARY 1995

	<u>Notes</u>	<u>1995</u> <u>£'000</u>	<u>1994</u> <u>£'000</u>
FIXED ASSETS			
Investment in subsidiary undertakings	10	6,010	5,000
Investment in participating interests	10	6,324	6,324
		<u>12,334</u>	<u>11,324</u>
CURRENT ASSETS			
Debtors	12	97,792	91,323
Cash at bank		708	8
		<u>98,500</u>	<u>91,331</u>
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(37,612)	(31,488)
		<u>60,888</u>	<u>59,843</u>
NET CURRENT ASSETS		<u>73,222</u>	<u>71,167</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
PROVISION FOR LIABILITIES AND CHARGES	16	(910)	(114)
		<u>72,312</u>	<u>71,053</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	23,802	22,543
		<u>72,312</u>	<u>71,053</u>
SHAREHOLDERS' FUNDS			

The shareholders' interests are equity £59,787,000 (1994: £59,278,000) and non equity £12,525,000 (1994: £11,775,000). All minority interests are equity.

The accounts were approved by the Board of Directors on [23rd April 1996] 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 1995**

	<u>Notes</u>	Year to 31 January 1995 <u>£'000</u>	Year to 31 January 1994 <u>£'000</u>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	22	5,815	(25,008)
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends received		0	5
Interest received		52	29
Interest paid		(2,526)	(1,863)
Interest element on finance lease rental payments		(13)	0
NET CASH OUTFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE		(2,487)	(1,829)
TAX REPAID		150	0
INVESTING ACTIVITIES			
Payments to acquire tangible fixed assets		(56)	(315)
Payments to acquire subsidiary undertakings (net of cash and cash equivalents)	27	(570)	0
Proceeds from sale of tangible fixed assets		14	3
Proceeds from sale of subsidiary undertakings (net of cash and cash equivalents disposed of)		0	(160)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(612)	(472)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		2,866	(27,309)
FINANCING			
New bank loans	25	7,500	34,000
Financing repaid	25	(9,600)	(6,900)
Capital element of finance lease rental payments		(44)	0
NET CASH (OUTFLOW)/INFLOW FROM FINANCING		(2,144)	27,100
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	23	722	(209)

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1995**

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 1995. 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 :

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

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1995**

1. ACCOUNTING POLICIES (Continued)

(e) 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.

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 1995**

2. TURNOVER, PROFIT BEFORE INTEREST AND NET ASSETS

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

	Turnover		Profit before interest	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
United Kingdom	5,704	2,140	256	82
Rest of Europe	11,230	11,444	317	311
North America	2,765	2,234	97	84
Asia Pacific	8,385	6,483	294	243
Rest of the World	129	238	4	9
Central costs	0	0	1,589	(7,968)
Inter-segment sales	(726)	0	0	0
	<u>27,487</u>	<u>22,539</u>	<u>2,557</u>	<u>(7,239)</u>
Income from shares in associated undertakings			2,787	(8,826)
Profit on disposal of associated undertaking			0	23,924
Profit on disposal of discontinued operations			0	24,167
			<u>5,344</u>	<u>32,026</u>

Turnover and profit before interest by origin is substantially derived from the United Kingdom.

b) Analysis of turnover and profit before interest by activity

	Turnover		Profit before interest	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Exporting	23,913	22,539	771	729
Wholesaling	4,300	0	197	0
Central costs	0	0	1,589	(7,968)
Inter-segment sales	(726)	0	0	0
	<u>27,487</u>	<u>22,539</u>	<u>2,557</u>	<u>(7,239)</u>
Income from shares in associated undertakings			2,787	(8,826)
Profit on disposal of associated undertakings			0	23,924
Profit on disposal of discontinued operations			0	24,167
			<u>5,344</u>	<u>32,026</u>

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1995**

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

c) Analysis of net assets by activity and geographical area

	1995	1994
	£'000	£'000
Export	6,316	5,562
Wholesale	1,736	0
Central/other	73,650	69,588
	<u>81,702</u>	<u>75,150</u>
Net interest bearing (liabilities)/assets	(703)	1,930
	<u>80,999</u>	<u>77,080</u>
United Kingdom	80,612	74,237
Rest of Europe	1,090	913
	<u>81,702</u>	<u>75,150</u>
Net interest bearing (liabilities)/assets	(703)	1,930
	<u>80,999</u>	<u>77,080</u>

d) Analysis of cost of sales and net operating expenses

	1995			1994		
	Continuing Operations £'000	Discontinued Operations £'000	Total £'000	Continuing Operations £'000	Discontinued Operations £'000	Total £'000
Cost of sales	22,899	0	22,899	19,360	0	19,360
Operating expenses						
Distribution costs	1,534	0	1,534	1,446	0	1,446
Administrative costs	615	0	615	8,575	472	9,047
Other operating income	(118)	0	(118)	(8)	(67)	(75)
	<u>2,031</u>	<u>0</u>	<u>2,031</u>	<u>10,013</u>	<u>405</u>	<u>10,418</u>

The total figures for continuing operations in 1995 include the following amounts relating to acquisitions : cost of sales £2,578,000, distribution costs £97,000 and administration costs £1,083,000.

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1995**

3. NET INTEREST (PAYABLE)/RECEIVABLE

Net interest (payable)/receivable comprises the following :

	1995 £'000	1994 £'000
Bank interest and interest on loans wholly repayable within 5 years	(1,909)	(1,595)
Interest arising on finance leases	(13)	(5)
Other interest payable	(891)	(798)
	<u>(2,813)</u>	<u>(2,398)</u>
Less : Interest receivable on short-term bank deposits	8	23
Other interest receivable	2,640	2,483
	<u>(165)</u>	<u>108</u>

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	1995 £'000	1994 £'000
Depreciation of tangible fixed assets	193	217
Amortisation of intangible fixed assets	344	643
Operating lease rentals:		
- Land and buildings	114	0
- Hire of plant and machinery	10	117
- Other operating leases	10	0
Auditors' remuneration :		
- Audit fees	40	50
- Other fees	40	30
(Gain)/loss on foreign exchange	(2,725)	2,506
Write down of deferred loan note	0	3,109
Loss/(profit) on sale of fixed assets	2	(146)
Rent receivable	(117)	(8)

5. EMPLOYEE INFORMATION

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

	1995	1994
Production	17	0
Selling and distribution	80	70
Administration	20	13
	<u>117</u>	<u>83</u>

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1995**

5. EMPLOYEE INFORMATION (Continued)

(b) The aggregate payroll costs were as follows :

	1995 £'000	1994 £'000
Wages and salaries	1,864	1,282
Social security costs	169	123
State pension costs	9	0
Other pension costs	38	36
	2,080	1,441

6. DIRECTORS' EMOLUMENTS

The emoluments paid directly to the directors of the company were nil. A management charge is made to Virgin Retail Group Limited by Virgin Management 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 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 :

	1995 £'000	1994 £'000
Corporation tax on profits for the year at 33% (1994: 33%)	284	0
Charge on profit for the year - overseas companies	0	1
Net movement on deferred taxation	797	(1,026)
Share of associated undertakings' tax charge	610	1,321
Overprovision of corporation tax in prior years	(85)	(59)
	1,606	237

The deferred tax credit in 1994 relates to the write down of the carrying value of the deferred loan note. This treatment was subsequently considered inappropriate and a deferred tax charge was therefore made in 1995.

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1995**

8. INTANGIBLE FIXED ASSETS - GROUP

	Goodwill £'000
COST	
At 31 January 1994	3,221
Additions	260
At 31 January 1995	<u>3,481</u>
AMORTISATION	
At 31 January 1994	(711)
Charge for the year	(171)
At 31 January 1995	<u>(882)</u>
NET BOOK VALUE	
At 31 January 1995	<u>2,599</u>
At 31 January 1994	<u>2,510</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 1994	0	900	180	1,080
Additions	0	114	12	126
Assets acquired on purchase of subsidiaries	2	327	209	538
Disposals	0	(42)	0	(42)
At 31 January 1995	<u>2</u>	<u>1,299</u>	<u>401</u>	<u>1,702</u>
DEPRECIATION				
At 31 January 1994	0	(649)	(157)	(806)
Charge for the year	0	(159)	(34)	(193)
Assets acquired on purchase of subsidiaries	0	(150)	(108)	(258)
Disposals	0	26	0	26
At 31 January 1995	<u>0</u>	<u>(932)</u>	<u>(299)</u>	<u>(1,231)</u>
NET BOOK VALUE				
At 31 January 1995	<u>2</u>	<u>367</u>	<u>102</u>	<u>471</u>
At 31 January 1994	<u>0</u>	<u>251</u>	<u>23</u>	<u>274</u>

Included in the net book value of plant and equipment is £138,000 (1994: £nil) in respect of assets held under finance leases and similar purchase contracts. Depreciation for the year on these assets was £24,000 (1994: £nil).

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1995**

10. FIXED ASSETS - INVESTMENTS

SHARES IN SUBSIDIARY UNDERTAKINGS

COMPANY

	£'000
COST	
At 31 January 1994	5,000
Additions	<u>1,010</u>
At 31 January 1995	<u>6,010</u>

The following were the principal direct subsidiary undertakings of Virgin Retail Group Limited as at 31 January 1995.

<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.

On 9th May 1994, the company acquired 50% of the ordinary share capital and 100% of the preference share capital of Sound Solutions Limited (which subsequently changed its name to Sound & Media Limited), a wholesaler of records, videos, tapes and compact discs. As a consequence of the company being entitled to appoint a majority of the board, Sound and Media Limited has been treated as a subsidiary undertaking. Sound & Media Limited has a year end accounting date of 30 June.

The fair value of the net assets acquired has been estimated at £699,000 representing their net book value at 9th May 1994 (see table below).

	Book Value and Fair Value £'000
Tangible fixed assets	280
Stocks	1,211
Debtors	587
Cash	40
Creditors	(1,389)
Provisions	<u>(30)</u>
Net assets acquired (see note 26)	<u>699</u>

**VIRGIN RETAIL GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1995**

10. FIXED ASSETS - INVESTMENTS (Continued)

INVESTMENT IN ASSOCIATED UNDERTAKINGS

GROUP

	1995 £'000	1994 £'000
Premium on acquisition	2,947	3,120
Share of associated undertaking's net assets :		
Net goodwill	3,634	0
Fixed assets	16,703	12,752
Current assets	26,782	13,047
Current liabilities	(25,943)	(9,110)
Long term liabilities	(7,290)	(8,556)
Restructuring provision	(3,576)	0
Investment in associated undertakings	13,257	11,253

The group's share of post acquisition profits of associated undertakings at 31 January 1995 was £7,453,000 [1994 : £5,593,000].

COMPANY

	£'000
COST	
At 31 January 1994 and 31 January 1995	6,324

The following was the principal associated undertaking of Virgin Retail Group Limited as at 31 January 1995.

<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.

On 1st June 1994, Virgin Retail Limited (VRL) merged with Our Price Limited, a company specialising in the retailing of music products. On the same date, the company effectively exchanged its 50% holding in VRL for a 25% share in the merged activities. No goodwill arose on this transaction. These financial statements include the results of VRL for the 12 months to January 1995 which are derived from the audited financial statements of VRL for the year to 28th May 1994 and from the management accounts of the merged VRL operations from the date of the merger to 31 January 1995.

**VIRGIN RETAIL GROUP LIMITED
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**NOTES TO THE ACCOUNTS
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11. STOCK

The group's stock represents goods held for resale.

12. DEBTORS

	Group		Company	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Trade debtors	4,922	3,824	9	9
Amounts owed by subsidiary undertakings	0	0	1,277	771
Amounts owed by associated undertakings	2,771	5,564	2,771	5,564
Amounts owed by parent company	44,183	46,300	44,183	46,300
Amounts owed by fellow subsidiary and associated undertakings	46,930	35,850	46,676	35,575
Other debtors	1,679	1,581	1,052	1,304
Prepayments and accrued income	354	141	24	0
Deferred loan note	1,800	1,800	1,800	1,800
	<u>102,639</u>	<u>95,060</u>	<u>97,792</u>	<u>91,323</u>

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

13. CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Unsecured loans and bank overdrafts	861	2,944	0	2,262
Secured loans	25,000	25,000	25,000	25,000
Trade creditors	2,280	3,736	0	0
Amounts owed to affiliated undertakings	11,326	0	11,326	1,824
Amounts owed to fellow subsidiary and associated undertakings	1,072	1,379	944	1,379
Corporation tax	538	99	0	0
Other tax and social security	40	358	0	351
Other creditors	511	679	12	180
Finance lease obligations	41	0	0	0
Accruals and deferred income	618	589	330	492
	<u>42,287</u>	<u>34,784</u>	<u>37,612</u>	<u>31,488</u>

The secured loans of £25,000,000 (1994: £25,000,000) are secured on the company's investment in Virgin Retail Limited.

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**NOTES TO THE ACCOUNTS
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14. CREDITORS : AMOUNTS FALLING DUE AFTER ONE YEAR

	Group		Company	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Finance lease obligations	66	0	0	0

15. HIRE PURCHASE AND LEASING COMMITMENTS

HIRE PURCHASE AND FINANCE LEASES

	Plant and Machinery	
	1995	1994
	£'000	£'000
GROUP		
Finance leases which expire within :		
1 year	45	0
2 - 5 years	78	0
	<u>123</u>	<u>0</u>
Included in the above rentals due are amounts relating to finance charges of:	<u>16</u>	<u>0</u>
Rentals net of finance charges are shown on the balance sheet as follows:		
Creditors due within 1 year	41	0
Creditors falling due after more than 1 year	66	0
	<u>107</u>	<u>0</u>

OPERATING LEASES

	Land and Buildings		Other Assets	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
GROUP				
Operating leases which expire within :				
1 year	28	0	15	2
2 - 5 years	26	0	3	13
Over 5 years	196	101	0	0
	<u>250</u>	<u>101</u>	<u>18</u>	<u>15</u>

**VIRGIN RETAIL GROUP LIMITED
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**NOTES TO THE ACCOUNTS
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16. PROVISION FOR LIABILITIES AND CHARGES

	Group		Company	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Deferred capital gains tax	910	114	910	114
Deferred tax - other	18	0	0	0
	<u>928</u>	<u>114</u>	<u>910</u>	<u>114</u>

There are no material unprovided deferred tax liabilities in the company or the group (1994: £nil).

17. SHARE CAPITAL

AUTHORISED

	1995	1994
	£'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

	1995	1994
	£'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. In accordance with Financial Reporting Standard 4, the accumulated unpaid and undeclared dividends of £4,125,000 (1994: £3,375,000), together with the share redemption premium of £400,000 (1994: £400,000), have been disclosed as non-equity interests within shareholders' funds, and the prior year's profit and loss account and analysis of shareholders' funds have been restated accordingly.

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 1995**

18. RESERVES

GROUP

	Share Premium £'000	Profit and Loss Account £'000	Total £'000
Balance at 31 January 1993	40,463	(3,483)	36,980
Retained profit for the year (as restated)		31,147	31,147
Exchange differences on consolidation of foreign subsidiary undertakings		156	156
Bonus issue of ordinary shares from share premium	(3)		(3)
Translation differences	1		1
Unpaid preference dividend		750	750
Balance at 31 January 1994	40,461	28,570	69,031
Retained profit for the year		2,777	2,777
Exchange differences on consolidation of foreign subsidiary undertakings		(3)	(3)
Unpaid preference dividend		750	750
Balance at 31 January 1995	40,461	32,094	72,555

COMPANY

	Capital Reserve £'000	Share Premium £'000	Profit and Loss Account £'000	Total £'000
Balance at 31 January 1993	29,800	40,463	287	70,550
Retained profit for the year (as restated)			(8,294)	(8,294)
Bonus issue of ordinary shares from share premium		(3)		(3)
Translation differences		1		1
Unpaid preference dividend			750	750
Other movements	(29,800)		29,800	0
Balance at 31 January 1994	0	40,461	22,543	63,004
Retained profit for the year			509	509
Unpaid preference dividend			750	750
Balance at 31 January 1995	0	40,461	23,802	64,263

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
AND SUBSIDIARY COMPANIES**

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 1995**

19. RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

	1995 £'000	1994 £'000
Profit for the financial year	3,527	31,897
Other recognised gains and losses relating to the year (net)	(3)	156
Translation difference	0	1
Net addition to shareholders' funds	3,524	32,054
Opening shareholders' funds	77,080	45,026
Closing shareholders' funds	80,604	77,080

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 £2,942,000 (1994 : £1,613,000) in respect of bank guarantees given in support of the operations of its associated 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 £47,000 (1994 : £36,000).

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/(LOSS) TO CASH INFLOW/(OUTFLOW) FROM OPERATIONS

	1995 £'000	1994 £'000
Operating profit/(loss)	2,557	(7,239)
Depreciation of tangible fixed assets	193	217
Amortisation of intangible fixed assets	344	643
Write down of deferred loan note	0	(3,109)
Increase in provisions	(12)	0
(Increase)/decrease in stocks	(483)	(420)
(Increase)/decrease in debtors	(4,566)	5,169
Increase/(decrease) in creditors	7,783	(20,123)
Other translation differences	(3)	0
Loss/(profit) on sale of fixed assets	2	(146)
Net cash inflow/(outflow) from operating activities	<u>5,815</u>	<u>(25,008)</u>

23. ANALYSIS OF CASH AND CASH EQUIVALENTS

	1995 £'000	1994 £'000
Balance at start of year	(789)	(567)
Net cash inflow/(outflow)	722	(209)
Translation difference on opening balance	0	(13)
Balance at end of year	<u>(67)</u>	<u>(789)</u>

**VIRGIN RETAIL GROUP LIMITED
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**NOTES TO THE ACCOUNTS
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**24. ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE
BALANCE SHEET**

	1995 £'000	1994 £'000
Cash at bank and in hand	794	55
Bank overdrafts	(861)	(844)
Total net cash and cash equivalents overdrawn at end of year	<u>(67)</u>	<u>(789)</u>

25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	1995 £'000 Share capital	1995 £'000 Loans	1994 £'000 Share capital	1994 £'000 Loans
Balance at start of year	(48,510)	(27,100)	(48,510)	0
Cash inflow from financing	0	(7,500)	0	(34,000)
Financing repaid	0	9,600	0	6,900
Balance at end of year	<u>(48,510)</u>	<u>(25,000)</u>	<u>(48,510)</u>	<u>(27,100)</u>

26. PURCHASE OF SUBSIDIARY UNDERTAKINGS

	1995 £'000
Net assets acquired (see note 10)	699
Minority Interest	<u>(349)</u>
	350
Goodwill	<u>260</u>
	610
Satisfied by :	
Cash	<u>610</u>

**VIRGIN RETAIL GROUP LIMITED
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**NOTES TO THE ACCOUNTS
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**27. ANALYSIS OF THE NET OUTFLOW OF CASH AND CASH EQUIVALENTS
IN RESPECT OF THE PURCHASE OF SUBSIDIARY UNDERTAKINGS**

	£'000
Cash consideration	610
Cash in hand and at bank	(40)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings	<hr/> 570 <hr/>

28. ULTIMATE PARENT COMPANY

The ultimate parent company at 31 January 1995 is Virgin Retail (BVI) Limited, a company incorporated in the British Virgin Islands.

No other group accounts include the results of the company.