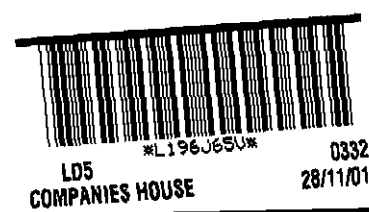


**Virgin Retail Group Limited**

**Directors' report and financial  
statements**

Registered number 2376810

31 January 2001



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## Directors' report

The directors present their report and the audited financial statements for the year ended 31 January 2001.

### Principal activities

The principal activity of the company is to act as a holding company for its subsidiary undertakings.

### Business review and results for the year

The results of the company for the year are set out on page 5. The profit for the year of £71,639,000 (2000 loss: £65,617,000) has been taken to reserves.

During the year, the VOP Holdings Limited group successfully concluded discussions with its shareholders and bankers which, on 30 March 2000, resulted in a parent undertaking acquiring all of the obligations previously owed by the group to the banks. In January 2001 the group was further re-capitalised by the issue of 6,800,000 £1, 10% preference shares in Virgin Retail Limited to Ivanco (No.2) Limited.

### Proposed dividends

The directors are unable to recommend the payment of a dividend (2000: £nil).

### Directors and directors' interests

The directors who held office during the period were as follows:

DE Tatton-Brown	(resigned 3 April 2000)
DS Wright	(appointed 3 April 2000)
S Peckham	(appointed 3 April 2000)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

DS Wright and S Peckham are also directors of the company's immediate parent undertaking, VOP Holdings Limited. Their interests in the shares of group companies are disclosed in the directors' report of VOP Holdings Limited. None of the other directors had any disclosable interests in the shares and debentures of group companies.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, with the exception of DS Wright, or exercised by them, during the financial period. Details of DS Wright's interests in a parent undertaking, Virgin Entertainment Group Limited, are disclosed in the financial statements of VOP Holdings Limited.

## Directors' report *(continued)*

### Auditors

The company has passed elective resolutions pursuant to Sections 252, 366A and 386 of the Companies Act 1985, dispensing with the laying of accounts and reports before the company in general meeting, the holding of Annual General Meetings and the obligation to appoint auditors annually.

By order of the board



**S Peckham**  
*Director*

120 Campden Hill Rd  
London  
W8 7AR

30<sup>th</sup> August 2001

## Statement of directors' responsibilities

The directors are required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



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## Report of the auditors to the members of Virgin Retail Group Limited

We have audited the financial statements on pages 5 to 14.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

### 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 the company's affairs as at 31 January 2001 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**KPMG**  
*Chartered Accountants*  
*Registered Auditors*

30<sup>th</sup> August 2001

**Profit and loss account**  
*for the year ended 31 January 2001*

	<i>Note</i>	<b>Year ended 31 January 2001 £'000</b>	<b>Year ended 31 January 2000 £'000</b>
Administrative expenses		(184)	(144)
<b>Loss on ordinary activities before interest</b>		<b>(184)</b>	<b>(144)</b>
Interest receivable and similar income	7	1,196	21
Intercompany debt restructuring	3	82,474	-
Amounts written off fixed asset investments	10	-	(49,198)
Interest payable and similar charges	8	(11,097)	(14,453)
<b>Profit/(loss) on ordinary activities before taxation</b>	2	<b>72,389</b>	<b>(63,774)</b>
Taxation on loss on ordinary activities	9	-	(1,093)
<b>Profit/(loss) on ordinary activities after taxation</b>		<b>72,389</b>	<b>(64,867)</b>
Finance costs of non-equity shares	15	(750)	(750)
<b>Retained profit/(loss) for the period</b>	15	<b>71,639</b>	<b>(65,617)</b>

The above profits/(losses) are derived from continuing operations.

The results are prepared on an historical cost basis.

The Company has no recognised gains and losses other than the profits and losses above and therefore no separate statement of total recognised gains and losses has been presented.

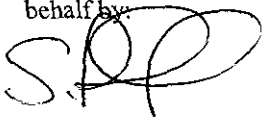
The notes on pages 7 to 14 form part of these financial statements.

**Balance sheet**  
*at 31 January 2001*

	Note	2001 £'000	2000 £'000
<b>Fixed assets</b>			
Investments	10	74,024	74,024
<b>Current assets</b>			
Debtors	11	12,304	11,732
Cash at bank		8	431
<b>Total assets</b>		<b>86,336</b>	<b>86,187</b>
<b>Capital and reserves</b>			
Called up share capital	14	8,049	8,049
Share premium	15	40,461	40,461
Profit and loss account	15	(36,690)	(109,079)
<b>Shareholders' funds/(deficit)</b>	16	<b>11,820</b>	<b>(60,569)</b>
Provision for liabilities and charges	13	910	910
<b>Creditors: amounts falling due within one year</b>	12	<b>57,080</b>	<b>145,846</b>
<b>Creditors: amounts falling due after more than one year</b>	12	<b>16,526</b>	<b>-</b>
<b>Total liabilities</b>		<b>73,606</b>	<b>145,846</b>

The shareholders' interests are equity £(5,205,000) (2000:£(76,844,000)) and non-equity £17,025,000 (2000:£16,275,000).

These financial statements were approved by the board of directors on 30<sup>th</sup> August 2001 and were signed on its behalf by:



**S Peckham**  
Director

The notes on pages 7 to 14 form part of these financial statements.



## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### *Basis of preparation*

The financial statements have been prepared under applicable accounting standards and under the historical cost accounting rules.

The financial statements have been prepared on a going concern basis in view of the fact that the ultimate parent undertaking Virgin Group Investments Limited has formally indicated that it will provide sufficient funding to the company to enable it to meet its liabilities as they fall due, for at least the next twelve months.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

#### *Basis of consolidation*

The company is exempt from the obligation to prepare and deliver group accounts under s228 of the Companies Act 1985, as it is a wholly owned subsidiary of VOP Holdings Limited and is included in the consolidated accounts of that company. These financial statements present information about the company as an individual undertaking and not about its group.

#### *Investments*

In the company's accounts, investments in subsidiary and associated undertakings are stated at cost less amounts written off. Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

#### *Deferred taxation*

Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise. An asset is recognised only where it is probable that it will be recoverable.

### 2 Profit/(loss) on ordinary activities before taxation

	Year ended 31 January 2001 £000	Year ended 31 January 2000 £000
<i>Profit/(loss) on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
Audit fees	3	8

## Notes (continued)

### 3 Intercompany debt restructuring

During the year, as part of a refinancing plan, a parent undertaking reduced an intercompany balance by approximately £82 million (see note 12 below).

### 4 Remuneration of directors

Mr DS Wright and Mr S Peckham are employees of Virgin Retail Limited and Mr DE Tatton-Brown was formerly an employee of Virgin Cinemas Group Limited. Management charges are made to the company's parent undertaking Virgin Entertainment Group Limited to cover certain emoluments and other costs. These costs are not recharged by Virgin Entertainment Group Limited to Virgin Retail Group Limited.

### 5 Related party transactions

As the company is a wholly owned subsidiary of VOP Holdings Limited the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

At 31 January 2001, the company's ultimate parent undertaking was Virgin Group Investments Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Investments Limited. The principal beneficiaries of those trusts are Sir Richard Branson and/or his immediate family. The shareholders of Virgin Group Investments Limited have interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard 8.

The following is a summary of transactions by and balances with the company, with related entities which are required to be disclosed by Financial Reporting Standard 8:

	2001 £000	2000 £000
<b>Parent undertakings:</b>		
Interest payable	8,069	-
Creditors	45,338	212
	<hr/>	<hr/>
<b>Fellow subsidiary undertakings:</b>		
Creditors	280	-
	<hr/>	<hr/>
<b>Related party undertakings:</b>		
Creditors	251	41
	<hr/>	<hr/>

The parent undertakings that the company transacted with during the year were Virgin Entertainment Group Limited and Ivanco (No.2) Limited. The fellow subsidiary undertaking that the company transacted with during the year was Virgin Entertainment Asia Limited. The related party undertakings that the company transacted with during the year were Virgin Management Limited and The Virgin Trading Company Limited.

No interest is payable on amounts due to or from related party undertakings, other than Ivanco (No.2) Limited. Details of the applicable rates are given in note 12.

### 6 Employee information

There were no employees directly employed by the company.

**Notes (continued)**

**7 Interest receivable and similar income**

	Year ended 31 January 2001 £000	Year ended 31 January 2000 £000
On bank deposits	17	-
On loans to subsidiary undertakings	1,092	21
Other interest receivable	87	-
	<u>1,196</u>	<u>21</u>

**8 Interest payable and similar charges**

	Year ended 31 January 2001 £000	Year ended 31 January 2000 £000
On bank loans	2,599	14,302
Issue costs written off	3,028	135
Loss on foreign exchange	-	16
On loans from parent undertaking	5,470	-
	<u>11,097</u>	<u>14,453</u>

**9 Taxation**

	2001 £000	2000 £000
The company's tax credit comprises:		
Group relief	-	(1,093)

No current year tax has been provided in view of the tax losses for the year.

## Notes (continued)

### 10 Fixed asset investments

	Company Shares in group undertakings £000
<i>Cost</i>	
At 31 January 2000 and at 31 January 2001	123,222
<i>Provision for diminution in value</i>	
At 31 January 2000	(49,198)
Provision in year	-
At 31 January 2001	(49,198)
<i>Net book value</i>	
At 31 January 2001	74,024
At 31 January 2000	74,024

The following were the principal subsidiary undertakings of Virgin Retail Group Limited as at 31 January 2001.

Name of Company	Country of incorporation	Proportion held	Nature of business
<i>Subsidiary undertakings</i>			
<i>Directly held:</i>			
Virgin Retail Limited	UK	100%	Music Retailer
<i>Indirectly held through Virgin Retail Limited:</i>			
Virgin Holdings (Ireland) Limited	Eire	100%	Holding Company
Virgin Retail (Ireland) Limited	UK	100%	Music Retailer
Harlandic Limited	Eire	100%	Property Holding Company

**Notes (continued)**

**11 Debtors: amounts falling due within one year**

	2001 £000	2000 £000
Amounts owed by fellow subsidiary undertaking	1,625	1,625
Amounts owed by subsidiary undertakings	5,462	5,112
Amounts owed by parent undertakings	3,093	2,876
Other debtors	2,124	2,119
	<u>12,304</u>	<u>11,732</u>

Interest is receivable on amounts owed by subsidiary undertakings at 15% per annum.

No interest is receivable on amounts owed by fellow subsidiary and parent undertakings.

**12 Creditors**

	2001 £000	2000 £000
<b>Amounts falling due within one year</b>		
Bank loans	-	141,972
Other tax and social security	1,888	1,888
Accruals and deferred income	316	1,733
Amounts owed to parent undertakings	28,812	212
Amounts owed to related party undertakings	251	41
Amounts owed to subsidiary undertakings	24,902	-
Amounts owed to fellow subsidiary undertakings	911	-
	<u>57,080</u>	<u>145,846</u>
<b>Amounts falling due after more than one year</b>		
Amounts owed to parent undertakings	16,526	-
	<u>73,606</u>	<u>145,846</u>

A secured term loan of £75 million was established in July 1998 (amended December 1998) by Virgin Retail Group Limited for the acquisition of Virgin Retail Limited. On 30 March 2000, this debt was acquired by a parent undertaking. The loan is secured by way of guarantees from the company and its subsidiary undertakings.

An unsecured subordinated bridge loan of £74 million was established by Virgin Retail Group Limited in July 1998 (amended December 1998) in part for the acquisition of Virgin Retail Limited. The loan was originally repayable in full on 8 July 1999, or convertible on that date to a term loan redeemable in full on 31 December 2005. On 30 March 2000, this debt was acquired by a parent undertaking. The loan has been guaranteed by the company and its subsidiary undertakings. The guarantee is subordinate to that given in relation to the secured term loan.

## Notes (continued)

### 12 Creditors (continued)

In accordance with Financial Reporting Standard 4 on Capital Instruments, issue costs of £3,893,000 were deducted from the gross proceeds of the loans outstanding prior to redemption, and were to be charged to the profit and loss account over the terms of the loans; however on acquisition of the loans by a parent undertaking, the remaining balance of £3,028,000 was charged to the profit and loss account.

The repayment schedule of the loans is summarised below:

	2001 £000	2000 £000
Loans payable by instalments falling due:		
Within one year	28,569	89,000
In two to five years	12,500	11,000
In more than five years	4,026	45,000
	<hr/>	<hr/>
	45,095	145,000
Less issue costs	-	(3,028)
	<hr/>	<hr/>
	45,095	141,972
	<hr/>	<hr/>

The interest rates of the loans are summarised below:

	2001 £000	2000 £000
At LIBOR +2%	27,526	71,000
At LIBOR + 3%	6,891	-
At LIBOR + 5.3125% to LIBOR + 17%	-	74,000
At 14%	10,678	-
	<hr/>	<hr/>
	45,095	145,000
	<hr/>	<hr/>

During the year, as part of a refinancing plan, a parent undertaking reduced various intercompany balances by approximately £82 million.

No interest is payable on any other amounts owed to parent undertakings or on amounts owed to related party undertakings, subsidiary undertakings or fellow subsidiary undertakings.

### 13 Provisions for liabilities and charges

	Deferred taxation £000
At 1 February 2000 and 31 January 2001	910
	<hr/>

The amounts provided in respect of deferred taxation relate to capital gains. There are no material unprovided deferred tax liabilities in the company (2000: £nil).

## Notes (continued)

### 14 Called up share capital

	2001 £000	2000 £000
<i>Authorised</i>		
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	8,000	8,000
	<hr/> 8,103	<hr/> 8,103
<i>Allotted, called up and fully paid</i>		
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	8,000	8,000
	<hr/> 8,049	<hr/> 8,049

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 £8,625,000 (2000: £7,875,000), together with the share redemption premium of £400,000 (2000: £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.

### 15 Share premium account and reserves

	Share premium £000	Profit and loss account £000
At beginning of year	40,461	(109,079)
Retained profit for the year	-	71,639
Unpaid preference dividend	-	750
	<hr/> 40,461	<hr/> (36,690)

## Notes (continued)

### 16 Reconciliation of movements on shareholders' funds/(deficit)

	2001 £000	2000 £000
Retained profit/(loss) for the year	71,639	(65,617)
Reversal of non-equity appropriation	750	750
<b>Net increase/(decrease) in shareholders' funds</b>	<b>72,389</b>	<b>(64,867)</b>
Opening shareholders' (deficit)/funds	(60,569)	4,298
<b>Closing shareholders' funds/(deficit)</b>	<b>11,820</b>	<b>(60,569)</b>

### 17 Contingent liabilities

In connection with the sale by a fellow subsidiary Virgin Retail Europe Limited, of Virgin Retail Belgium NV to Free Record Shop Holdings NV, Virgin Retail Group Limited indemnified Free Record Shop Holdings NV against all liabilities that may arise in relation to legal proceedings that were ongoing in relation to the theft of cash and stock at the Brussels store of Virgin Retail Belgium NV. The company also indemnified Virgin Retail Europe Limited against any claims made against it by Free Record Shop Holdings NV relating to the Brussels theft. In the opinion of the directors, the possibility of such claims arising is remote. No provision, therefore, has been made.

The directors have not been notified of any other litigation which they consider will result in a material liability to the company, either individually or in aggregate.

The company has guaranteed intercompany loans made to it as set out in Note 12.

### 18 Ultimate parent undertaking

The company's ultimate parent undertaking is Virgin Group Investments Limited, a company incorporated in the British Virgin Islands. The principal shareholders of Virgin Group Investments Limited are certain trusts, none of which, individually has a controlling interest in Virgin Group Investments Limited. The principal beneficiaries of those trusts are Sir Richard Branson and/or members of his immediate family.

The largest group in which the results of the company are consolidated is that headed by Ivanco (No.2) Limited, a company registered in England and Wales. The smallest group in which the results of the company are consolidated is that headed by VOP Holdings Limited, a company registered in England and Wales. The consolidated accounts of Ivanco (No.2) Limited and VOP Holdings Limited are available to the public and may be obtained from Companies House, Maindy, Cardiff, CF4 3UZ.