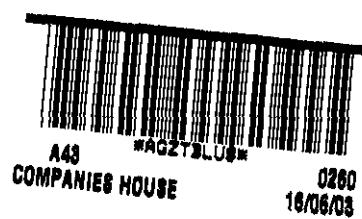


V2 Music Publishing Limited

**Directors' report and financial
statements**

Registered number 3345229

30 June 2002



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2002.

Principal activity

The principal activity of the company in the year under review was the signing of songwriters and the exploitation of their music publishing catalogue.

Business review

During the year the company's intermediate parent undertaking was re-registered as a private limited company, and accordingly changed its name from V2 Music (Holdings) PLC to V2 Music (Holdings) Limited.

On 28 March 2002, Morgan Stanley & Co., Incorporated acquired a 47.5% stake in V2 Music (Holdings) Limited. Virgin Group Investments Limited retain a majority 52.5% interest in V2 Music (Holdings) Limited.

Results for the year and proposed dividend

The retained profit for the year is £57,000 (2001: £32,000 loss). The directors are unable to recommend the payment of a dividend (2001: *£nil*). Accordingly the profit for the year is transferred to reserves.

Directors and directors' interests

The directors who held office during and subsequent to the year were as follows:

Sir Richard Branson	(resigned 15 April 2002)
JW Pearce	(resigned 23 February 2002)
RJ Polding	(resigned 21 June 2002)
IS Burroughs	(resigned 8 November 2001)
SWH Navin	(appointed 24 December 2001 and resigned 30 September 2002)
SD Williams	(appointed 15 April 2002)
AD Harlow	(appointed 1 October 2002)

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 or exercised by them, during the year.

Directors' report *(continued)*

Auditors

The members of the company have passed elective resolutions in accordance with Sections 366A, 252 and 386 of the Companies Act 1985 dispensing with the previous statutory requirements of holding annual general meetings, laying accounts before the company in general meetings and re-appointing auditors annually.

During the year the business of KPMG was transferred to a limited liability partnership, KPMG LLP. Accordingly, KPMG resigned as auditors on 11 June 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising. A resolution for the appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Extraordinary General Meeting.

By order of the board



SD Williams
Director

120 Campden Hill Road
London
W8 7AR

31 October 2002

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss 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 independent auditors to the members of V2 Music Publishing Limited

We have audited the financial statements on pages 5 to 12.

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 1985. 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 audit 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 30 June 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditor

31 October 2002

Profit and loss account

for the year ended 30 June 2002

	<i>Note</i>	2002 £000	2001 £000
Turnover	<i>1</i>	508	405
Cost of sales		(352)	(315)
		<hr/>	<hr/>
Gross profit		156	90
Administrative expenses		(99)	(122)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation	<i>2</i>	57	(32)
Tax on profit/(loss) on ordinary activities	<i>5</i>	-	-
		<hr/>	<hr/>
Profit/(loss) on ordinary activities after taxation and retained profit/(loss) for the financial year	<i>10</i>	57	(32)
		<hr/>	<hr/>

Results are derived from continuing activities, and have been prepared on the historical cost basis.

There are no recognised gains or losses in the current or prior year other than those included in the profit and loss account.

The notes on pages 7 to 12 form part of these financial statements.

Balance sheet

at 30 June 2002

	Note	2002 £000	2001 £000
Current assets			
Debtors	6	29	30
Cash at bank and in hand		306	111
		<u>335</u>	<u>141</u>
Creditors: amounts falling due within one year	7	(2,002)	(1,865)
Net current liabilities		<u>(1,667)</u>	<u>(1,724)</u>
Total assets less current liabilities		<u>(1,667)</u>	<u>(1,724)</u>
Net liabilities		<u>(1,667)</u>	<u>(1,724)</u>
Capital and reserves			
Called up share capital	8	-	-
Profit and loss account	9	(1,667)	(1,724)
Equity shareholder's deficit	10	<u>(1,667)</u>	<u>(1,724)</u>

These financial statements were approved by the board of directors on 31 October 2002 and were signed on its behalf by:

SD Williams

SD Williams
Director

The notes on pages 7 to 12 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 in accordance with the Companies Act 1985 and applicable accounting standards using the historical cost basis of accounting. The company has adopted FRS 19 Deferred Tax in these financial statements.

The financial statements have been prepared on a going concern basis in view of the fact that the intermediate parent undertaking, V2 Music (Holdings) 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 from the date of signing from these financial statements.

The directors have no reason to believe that the parent undertaking will not be in a position to provide the support referred to above and, accordingly, they have prepared the financial statements on the going concern basis.

Cash flow statement

Under Financial Reporting Standard No.1 (Revised 1996) the company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary of V2 Music (Holdings) Limited, and its cash flows are included within the consolidated cash flows of that company.

Turnover

Turnover in respect of mechanical and performance royalties represents amounts reported to the company in statements received in the year. Turnover for synchronisation fees and sundry income represents amounts invoiced during the year and is net of value added tax.

Royalties payable

Provision is made for royalties payable at the end of each accounting period in respect of income receivable arising during each accounting period.

Advances paid against future royalties are carried forward and recognised as an asset where such advances relate to established writers and where it is estimated that sufficient future royalties will be earned for recoupment for those advances.

Non-recoupable costs in addition to the catalogue of music are wholly written off as incurred.

Pension benefits

The Group, of which the company is a part, operates in conjunction with other Virgin group companies defined contribution schemes for its employees and executives. The assets of the scheme are held separately from those of the Group in independently administered funds. The pension cost represents amounts payable by the company to the funds.

Notes (continued)

1 Accounting policies (continued)

Taxation

The company adopted Financial Reporting Standard 19 Deferred tax ("FRS 19") during the year. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed at the balance sheet date, except as otherwise required by FRS 19. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are included in the profit and loss account.

2 Profit/(loss) on ordinary activities before taxation

	2002 £000	2001 £000
<i>Profit/(loss) on ordinary activities before taxation is stated after charging:</i>		
Depreciation of tangible fixed assets – owned	-	26
Auditors' remuneration – audit	6	5
Recoupment of advances previously written off	(89)	(37)
Hire of other assets – operating leases	1	1
Land and buildings – operating leases	4	9
	<hr/>	<hr/>

3 Remuneration of directors

None of the directors received any remuneration from the company (2001: £nil).

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, was as follows:

	2002	2001
Administration	1	1

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	35	37
Social security costs	3	4
	<u>38</u>	<u>41</u>

5 Taxation

	2002 £000	2001 £000
Corporation tax charge	-	-

Factors affecting the tax charge for the year

The tax charge for the year is lower (2001: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2002 £000	2001 £000
Profit/(loss) on ordinary activities before tax	57	(31)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	17	(10)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	1	1
Capital allowances for year in excess of depreciation	-	8
Unrelieved tax losses	-	1
Utilisation of brought forward losses	(18)	-
Current tax charge for year	<u>-</u>	<u>-</u>

Notes (continued)

5 Taxation (continued)

The company has unprovided deferred tax assets of £438,000 at 30 June 2002 (2001: £456,000).

Factors affecting the future tax charge

A deferred tax asset of £438,000 (2001: £456,000) relating to carried forward tax losses and other timing differences has not been recognised in view of the inherent uncertainty surrounding its recoverability.

	2002 £000	2001 £000
Capital allowances in excess of depreciation	24	24
Unrelieved tax losses	414	432
	<hr/>	<hr/>
Total unprovided deferred tax asset	438	456
	<hr/>	<hr/>

6 Debtors

	2002 £000	2001 £000
Trade debtors	19	23
Other debtors	10	7
	<hr/>	<hr/>
	29	30
	<hr/>	<hr/>

Notes (continued)

7 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Trade creditors	9	53
Amounts owed to group undertakings	1,837	1,807
Other creditors including taxation and social security	150	-
Accruals and deferred income	6	5
	<u>2002</u>	<u>1,865</u>

8 Share capital

	2002 £	2001 £
<i>Authorised</i>		
Equity: 1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<i>Allotted, issued and fully paid</i>		
Equity: 2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

9 Profit and loss reserve

	2002 £000	2001 £000
At beginning of year	(1,724)	(1,692)
Retained profit/(loss) for the financial year	57	(32)
	<u>(1,667)</u>	<u>(1,724)</u>

10 Reconciliation of movement in equity shareholder's deficit

	2002 £000	2001 £000
Opening equity shareholder's deficit	(1,724)	(1,692)
Profit/(loss) for the financial year	57	(32)
	<u>(1,667)</u>	<u>(1,724)</u>

Notes *(continued)*

11 Related parties

As the company is a wholly owned subsidiary of V2 Music (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 headed by V2 Music (Holdings) Limited.

At 30 June 2002, 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.

12 Ultimate parent company

The ultimate parent undertaking is Virgin Group Investments Limited, a company incorporated in the British Virgin Islands.

The immediate parent undertaking is V2 Music Publishing (Holdings) Limited, a company which does not prepare consolidated accounts as it is a wholly owned subsidiary of V2 Music (Holdings) Limited. The results of the company are included in the consolidated accounts of the immediate parent undertaking, V2 Music (Holdings) Limited, a company registered in England and Wales. Consolidated financial statements can be obtained from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.