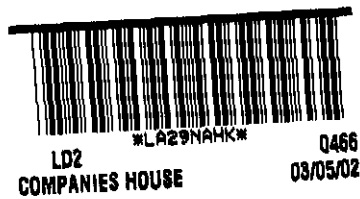


V2 Music Publishing Limited

**Directors' report and financial
statements**

Registered number 3345229

30 June 2001



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2001.

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.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the company will have sufficient funds to meet its liabilities as and when they fall due for the foreseeable future.

V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC), the company's intermediate parent undertaking, has provided an undertaking to the company to provide the company with sufficient funding to enable it to meet its liabilities, as and when they fall due, for the foreseeable future.

Results for the year and proposed dividend

The retained loss for the year is £32,000 (2000: £185,000). The directors are unable to recommend the payment of a dividend (2000: £nil). Accordingly the loss for the year is transferred to reserves.

Post balance sheet events

On 28 March 2002, Morgan Stanley & Co., Incorporated acquired a 47.5% stake in V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC), the company's intermediate parent undertaking. Virgin Group Investments Limited retain a majority 52.5% interest in V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC).

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 23/02/02)
RJ Polding	
IS Burroughs	(resigned 08/11/01)
SWH Navin	(appointed 24/12/01)
SD Williams	(appointed 15/04/02)

RCN Branson and JW Pearce had interests in V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC), the company's intermediate parent company, during the year. These interests are disclosed in the financial statements of that company.

RJ Polding was granted the following share options over the 'A' ordinary shares in V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC) on 1 April 1999 and held them at 30 June 2001:

Number of options at 1 July 2000 and 30 June 2001	Exercise price
21,874	£0.01
21,874	£3.20
21,874	£6.40

Directors' report *(continued)*

Directors and directors' interests *(continued)*

The options were granted on 1 April 1999 on adoption by the board of the share option scheme. No options lapsed or were exercised during that year. The options vest in three equal tranches on the first, second and third annual anniversaries of the date of grant of the options or the date of listing or change in control, but must be exercised within seven years of the date of the grant.

The terms of the employee share options have not been altered as a result of the restructuring of the Group subsequent to the year end.

According to the register of directors' interests, no other 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.

Auditors

Pursuant to a shareholder's resolution, the company is not obliged to re-appoint its auditors annually and KPMG will therefore continue in office.

By order of the board



SD Williams
Director

120 Campden Hill Road
London
W8 7AR

30 April 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 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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

2002

Profit and loss account
for the year ended 30 June 2001

	<i>Note</i>	2001 £000	2000 £000
Turnover	<i>1</i>	405	218
Cost of sales		(315)	(247)
		<hr/>	<hr/>
Gross profit/ (loss)		90	(29)
Administrative expenses		(122)	(156)
		<hr/>	<hr/>
Operating loss and loss on ordinary activities before taxation	<i>2</i>	(32)	(185)
Tax on loss on ordinary activities	<i>5</i>	-	-
		<hr/>	<hr/>
Loss on ordinary activities after taxation		(32)	(185)
		<hr/>	<hr/>
Retained loss for the year	<i>11</i>	(32)	(185)
		<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.

Balance sheet
at 30 June 2001

	Note	2001 £000	2000 £000
Fixed assets			
Tangible assets	6	-	26
Intangible assets	7	-	-
		<u>-</u>	<u>26</u>
Current assets			
Debtors	8	30	12
Cash at bank and in hand		111	61
		<u>141</u>	<u>73</u>
Creditors: amounts falling due within one year	9	(1,865)	(1,791)
		<u>(1,724)</u>	<u>(1,718)</u>
Net current liabilities			
		<u>(1,724)</u>	<u>(1,692)</u>
Total assets less current liabilities			
		<u>(1,724)</u>	<u>(1,692)</u>
Net liabilities			
		<u>(1,724)</u>	<u>(1,692)</u>
Capital and reserves			
Called up share capital	10	-	-
Profit and loss account	11	(1,724)	(1,692)
		<u>(1,724)</u>	<u>(1,692)</u>
Equity shareholder's deficit	12	<u>(1,724)</u>	<u>(1,692)</u>

These financial statements were approved by the board of directors on
on its behalf by:

30 April 2002 and were signed



SD Williams
Director

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 applicable accounting standards and under the historical cost accounting rules, and on a going concern basis which assumes that the company will have sufficient funding to enable it to meet its liabilities, as and when they fall due, for the foreseeable future.

V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC), the company's intermediate parent undertaking, has provided an undertaking to the company to provide the company with sufficient funding to enable it to meet its liabilities, as and when they fall due, for at least the next 12 months.

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 (formerly V2 Music (Holdings) PLC), and its cash flows are included within the consolidated cash flows of that company.

Turnover

Turnover represents royalty income receivable and is net of value added tax.

Tangible fixed assets

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Fixtures, fittings, tools and equipment	-	3 to 5 years
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Impairment

The company evaluates its fixed assets for financial impairment where events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. When such evaluations indicate that the carrying value of an asset exceeds its recoverable value an impairment in value is recorded.

Intangible assets

Intangible assets represent the excess of cost of acquiring music publishing rights over the value of the underlying assets, and are capitalised and written off over their estimated useful economic life of 3 years.

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 and deferred taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. 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.

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.

Royalties

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 adding to the catalogue of music are wholly written off as incurred.

2 Loss on ordinary activities before taxation

	2001 £000	2000 £000
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Depreciation of tangible fixed assets – owned	26	26
Amortisation of intangible fixed assets	-	21
Auditors' remuneration – audit	5	5
Recoupment of advances previously written off	(37)	(16)
	<hr/>	<hr/>

3 Remuneration of directors

Two of the directors were employed by Virgin Management Limited; a management charge is levied from Virgin Management Limited to the company's ultimate parent undertaking, V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC), for their services. The remaining directors were paid by V2 Music Group Limited.

Notes (continued)

4 Staff numbers and costs

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

	2001	2000
Administration	1	2

The aggregate payroll costs of these persons were as follows:

	2001 £000	2000 £000
Wages and salaries	37	50
Social security costs	4	7
	41	57

5 Taxation

No corporation tax has been provided in view of the loss for the year.

The company has made a loss for taxation purposes. The deferred tax asset arising in relation to this loss has not been reflected in these financial statements in view of the inherent uncertainty surrounding its recoverability.

Notes *(continued)*

6 Tangible fixed assets

	Fixtures, fittings, tools and equipment £000
<i>Cost</i>	
At 1 July 2000 and 30 June 2001	78
	<hr/>
<i>Depreciation</i>	
At 1 July 2000	52
Charge for year	26
	<hr/>
At 30 June 2001	78
	<hr/>
<i>Net book value</i>	
At 30 June 2001	-
	<hr/>
At 30 June 2000	26
	<hr/>

7 Intangible fixed assets

	£000
<i>Cost</i>	
At 1 July 2000 and 30 June 2001	63
	<hr/>
<i>Amortisation</i>	
At 1 July 2000 and 30 June 2001	63
	<hr/>
<i>Net book value</i>	
At 30 June 2001	-
	<hr/>
At 30 June 2000	-
	<hr/>

Notes (continued)

8 Debtors

	2001 £000	2000 £000
<i>Amounts due within one year:</i>		
Trade debtors	23	10
Other debtors	7	2
	<hr/>	<hr/>
	30	12
	<hr/>	<hr/>

9 Creditors: amounts falling due within one year

	2001 £000	2000 £000
Trade creditors	53	8
Accruals and deferred income	5	39
Amounts owed to group undertakings	1,807	1,744
	<hr/>	<hr/>
	1,865	1,791
	<hr/>	<hr/>

10 Share capital

	2001 £	2000 £
<i>Authorised</i>		
Equity: 1,000 ordinary shares of £1 each	1,000	1,000
	<hr/>	<hr/>
<i>Allotted, issued and fully paid</i>		
Equity: 2 ordinary shares of £1 each	2	2
	<hr/>	<hr/>

11 Profit and loss reserve

	2001 £000	2000 £000
At beginning of year	(1,692)	(1,507)
Retained loss for the year	(32)	(185)
	<hr/>	<hr/>
At end of year	(1,724)	(1,692)
	<hr/>	<hr/>

Notes (continued)

12 Reconciliation of movement in equity shareholder's deficit

	2001 £000	2000 £000
Opening equity shareholder's deficit	(1,692)	(1,507)
Loss for the financial year	(32)	(185)
Closing equity shareholder's deficit	(1,724)	(1,692)

13 Related parties

The company has taken advantage of the exemption from the requirement of Financial Reporting Standard No.8 to disclose transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties), as it is controlled by and is a wholly owned subsidiary undertaking of V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC).

14 Employee share options

The Group implemented a share option scheme on 1 April 1999. Details of the options granted to directors during the year are disclosed in the directors' report and in the financial statements of the intermediate parent undertaking, V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC), which are publicly available.

The terms of the employee share options have not been altered as a result of the restructuring of the Group subsequent to the year end.

15 Ultimate parent company

The ultimate parent company is Virgin Group Investments Limited, a company incorporated in the British Virgin Islands and which does not prepare consolidated accounts. The principal shareholder of Virgin Group Investment 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 his immediate family. The company's immediate parent undertaking is V2 Music Publishing (Holdings) Limited. The results of the company are included in the consolidated accounts of the intermediate parent undertaking, V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC), a company registered in England and Wales. Consolidated financial statements can be obtained from V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC)'s registered office at 120 Campden Hill Road, London W8 7AR.

16 Post balance sheet events

On 28 March 2002, Morgan Stanley & Co., Incorporated acquired a 47.5% stake in V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC), the company's intermediate parent undertaking. Virgin Group Investments Limited retain a majority 52.5% interest in V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC).