

Virgin Audio Limited

**Directors' report and financial
statements**

Registered number 3937608

28 February 2002



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 28 February 2002.

Principal activities

The principal activity of the Company is that of an investment holding company.

Review

The results for the year are set out on page 4 of the financial statements and the loss for the year of £142,135 (2001: £3,942,643) has been transferred to reserves.

Proposed dividend

The directors do not recommend the payment of a dividend (2001: £nil).

Directors and their interests

The directors of the Company during the year and their interests in the shares of the Company as recorded in the register of directors' interests were as follows:

F Dearie (resigned 12 July 2001)

A J Renouf (alternate A L Snell and S O'Callaghan)

N M Ritchie (alternate F Dearie, appointed 12 July 2001)

S C Stevenson (as alternate to A J Renouf, appointed 9 April 2001, resigned 11 April 2001, reappointed 14 August 2001, resigned 24 December 2001)

S O'Callaghan (as alternate to A J Renouf, appointed 17 April 2002)

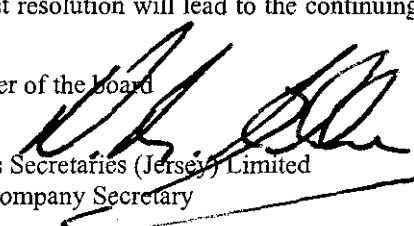
None of the directors who held office at the end of the financial year have any disclosable interest in the shares of the Company.

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 requirement of holding annual general meetings, laying accounts before the Company in general meetings and reappointing auditors annually.

The last resolution will lead to the continuing appointment of KPMG LLP as auditors of the company until further notice.

By order of the board


Abacus Secretaries (Jersey) Limited
Joint Company Secretary

La Motte Chambers
St Helier
Jersey
JE1 1BJ

23 December 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.

Report of the independent auditors to the members of Virgin Audio Limited

We have audited the financial statements on pages 4 to 12.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, 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.

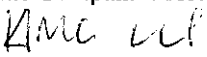
Basis of audit opinion

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 28 February 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG LLP
Chartered Accountants
Registered Auditor

31 December 2002
8 Salisbury Square
London
EC4Y 8BB

Profit and loss account
for the year ended 28 February 2002

	<i>Note</i>	2002 £	2001 £
Administrative expenses		(8,247)	100,762
Operating (loss)/profit		(8,247)	100,762
Interest receivable and similar income	3	48	111
Amounts written off investments		-	(41,899)
Interest payable and similar charges	4	(133,936)	(106,231)
Amounts written off intercompany advance	2	-	(3,895,386)
Loss on ordinary activities before taxation	2	(142,135)	(3,942,643)
Tax on profit on ordinary activities	7	-	-
Retained loss for the year		(142,135)	(3,942,643)

There were no recognised gains or losses in the year other than those shown above, which were derived from continuing operations.

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

Balance sheet

At 28 February 2002

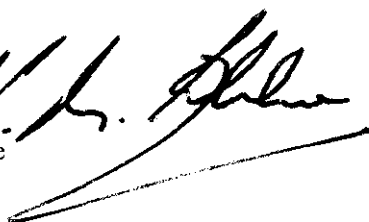
	Note	2002 £	2001 £
Fixed Assets			
Investments	8	-	-
Current assets			
Cash at bank		1,463	2,790
		<u>1,463</u>	<u>2,790</u>
Creditors: amounts falling due within one year	9	(2,679,341)	(2,538,533)
Net current liabilities		<u>(2,677,878)</u>	<u>(2,535,743)</u>
Net liabilities		<u>(2,677,878)</u>	<u>(2,535,743)</u>
Capital and reserves			
Called up share capital	10	2,001	2,001
Share premium account	11	1,404,899	1,404,899
Profit and loss account	11	(4,084,778)	(3,942,643)
Equity Shareholders' deficit	12	<u>(2,677,878)</u>	<u>(2,535,743)</u>

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

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

23rd December 2002

N M Ritchie
Director



Cash flow statement
for the year ended 28 February 2002

	<i>Note</i>	2002 £	2001 £
Reconciliation of operating profit to net cash flow from operating activities			
Operating (loss)/profit		(8,247)	100,762
(Decrease)/Increase in debtors		-	(3,895,387)
Increase in creditors		13,600	2,539,127
Foreign exchange gain		(6,728)	(106,823)
Net cash outflow from operating activities		(1,375)	(1,362,321)
Cash flow statement			
Cash flow from operating activities		(1,375)	(1,362,321)
Returns on investments and servicing of finance	13	48	111
Taxation		-	-
Cash outflow before management of liquid resources and financing		(1,327)	(1,362,210)
Financing	13	-	1,365,000
(Decrease)/increase in cash in the period	14	(1,327)	2,790
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the period		(1,327)	2,790
Change in net debt resulting from cash flows		(1,327)	2,790
Movement in net debt in the period		(1,327)	2,790
Net debt at the start of the period		2,790	-
Net debt at the end of the period	14	1,463	2,790

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 except as noted below. The company has adopted, FRS 18 'Accounting policies' and FRS 19 'Deferred tax' in these financial statements.

Basis of preparation

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

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

The company is exempt by virtue of s248 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Taxation

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 by 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.

Investments

Investments in subsidiaries are shown at cost less amounts written off for impairment.

Notes (continued)

2 Loss on ordinary activities before taxation

	2002	2001
	£	£
<i>Loss on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditors' remuneration:		
Audit	1,000	1,000
Amounts written off investment (see note 8)	-	41,899
Amounts written off intercompany advances	-	3,895,386
Exchange gains	(6,728)	(106,823)

3 Other interest receivable and similar income

	2002	2001
	£	£
Bank interest receivable	48	111
	<u>48</u>	<u>111</u>

4 Interest payable and similar charges

	2002	2001
	£	£
Payable to group undertakings	133,936	106,231
	<u>133,936</u>	<u>106,231</u>

5 Directors' Emoluments

Directors remuneration during the year for services to the Company was £122 (2001: £110).

6 Staff Costs

The Company did not have any employees other than the directors of the Company for the current or previous period.

Notes (continued)

7 Taxation

There was no tax charge in the current or prior period.

Factors affecting the tax charge for the current period

The current tax charge for the period is lower than the standard rate of corporation tax in the UK (30 %). The differences are explained below.

	2002 £	2001 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	(142,135)	(3,942,643)
	<hr/>	<hr/>
Current tax at 30% (2001: 30%)	(42,641)	(1,182,793)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	-	1,181,186
Tax losses not utilised or recognised	42,641	1,607
	<hr/>	<hr/>
Total current tax charge (see above)	-	-
	<hr/>	<hr/>

Factors that may affect future tax charges

As at 28 February 2002 the company had tax losses available to carry forward of approximately £147,493 (2001: £5,358) against which no deferred tax asset has been recognised. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all the 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 difference can be deducted.

Notes (continued)

8 Fixed asset investments

	Investment in subsidiaries £
Cost	
At 28 February 2001 & 2002	41,899
Provision	
At 28 February 2001 & 2002	(41,899)
Net book value	
At 28 February 2001 & 2002	-

The companies in which the Company's interest at 28 February 2002 is more than 20% are as follows:

	Country of Registration	Principal Activity	Holding %	No Share	Type of share
<i>Subsidiary undertakings</i>					
Mayfly SA	Switzerland	Holding Company	99.8%	1,000	CHF 100 Ordinary shares
Virgin Audio Holdings Inc*	United States of America	Holding Company	100%	55,000	US\$0.01 Common stock
Virgin Audio Holdings LLC*	United States of America	Operates Radio Free Virgin (digital radio)	75.67%	70,000,000	Common stock

*denotes indirect holdings

9 Creditors: amounts falling due within one year

	2002 £	2001 £
Amounts owed to group undertakings	2,675,641	2,537,533
Accruals	3,700	1,000
	<u>2,679,341</u>	<u>2,538,533</u>

Notes (continued)

10 Called up share capital

	2002 £	2001 £
<i>Authorised</i>		
1,000,000 Ordinary shares of £1 each	1,000,000	1,000,000
	_____	_____
<i>Allotted, called up and fully paid</i>		
2,001 Ordinary shares of £1 each	2,001	2,001
	_____	_____

11 Share premium and reserves

	Share premium account £	Profit and loss account £
At beginning of year	1,404,899	(3,942,643)
Retained loss for the year	-	(142,135)
	_____	_____
At end of year	1,404,899	(4,084,778)
	=====	=====

12 Reconciliation of Equity Shareholders' Deficit

Loss for the financial year	(142,135)
Opening equity shareholders' deficit	(2,535,743)

Closing equity shareholders' deficit	(2,677,878)
	=====

Notes (continued)

13 Analysis of cash flows

	2002 £	2001 £
Returns on investment and servicing of finance		
Interest received	48	111
	<u> </u>	<u> </u>
Financing		
Issue of ordinary share capital	-	1,000
Share premium	-	1,364,000
	<u> </u>	<u> </u>
Net cash inflow from financing	-	1,365,000
	<u> </u>	<u> </u>

14 Analysis of net debt

	At beginning of year £	Cash flow £	At end of year £
Cash in hand, at bank	2,790	(1,327)	1,463
	<u> </u>	<u> </u>	<u> </u>

15 Related party disclosures

At 28 February 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 No. 8.

At the year end, the Company had the following amounts outstanding with related parties:

	Group undertakings 2002 £	2001 £
Creditors	2,675,641	2,537,533
Interest payable	133,936	106,231

The group undertakings are Barfair Limited and Virgin Group Investments Limited. Intercompany funding balances due to fellow subsidiary undertakings attracted interest at a rate of 2.25% above base rate.

16 Ultimate parent company

The Company is a subsidiary undertaking of Virgin Group Investments Limited, a company incorporated in the British Virgin Islands.