

Registered Number: 2833330

VIRGIN NET LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 JULY 1998



VIRGIN NET LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 July 1998

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VIRGIN NET LIMITED

DIRECTORS' REPORT

The directors present their report and audited financial statements for the year ended 31 July 1998.

RESULTS AND ACTIVITIES

The results for the year are set out on page 4. The loss has been transferred to reserves.

DIVIDENDS

The directors do not recommend the payment of a dividend on the ordinary share capital. The cumulative unpaid preference dividend on the paid up value of the 10% preference shares amounted to £337,607 (1997: £137,607).

DIRECTORS

The directors of the company, and, where a director at the year-end, their interests in its shares at the year-end are shown in the table and note below:

	Notes	A Ordinary shares	31 July 1998 B Ordinary shares	Preference shares
RHF Devereux (resigned 12 Dec 1997)		N/A	N/A	N/A
D Campbell (resigned 8 December 1997)		N/A	N/A	N/A
R Branson (appointed 15 December 1997)		80,111	-	-
KRA Ibbett		-	-	-
S Burke (appointed 13 May 1998, resigned 6 May 1999)		-	-	-
J Gregg	1	-	-	-
B Knapp	1	-	-	-
Gordon McCallum (appointed 13 May 1998 as alternate to R Branson)		-	-	-
L Wood (appointed 13 May 1998 as alternate to B Knapp)		-	-	-

1. Mr B Knapp and Mr J Gregg are interested in the whole of the issued B ordinary shares and Cumulative redeemable preference shares by virtue of their interest in the share capital of CableTel Ventures Limited, the owner of the shares, a corporation organised under the laws of the state of Delaware.

BUSINESS REVIEW AND PROSPECTS

Virgin Net's paid for subscribers continue to increase satisfactorily. However, the launch of a free internet service by a competitor after the year-end slowed this. The company continues to focus on attracting an audience by connectivity and superior content, so generating an increasing amount of its revenue from banner advertising and e-commerce commissions.

VIRGIN NET LIMITED

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 year. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 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.

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

23 June 1999
120 Campden Hill Road
London W8 7AR

On behalf of the board


K IBBETT
Director

VIRGIN NET LIMITED

REPORT OF THE AUDITORS

to the members of Virgin Net Limited

We have audited the financial statements set out on pages 4 to 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2, 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, on 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 the company's affairs at 31 July 1998 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
London

Date 28 June 1999

VIRGIN NET LIMITED

PROFIT AND LOSS ACCOUNT

for the year ended 31 July 1998

	Notes	Year ended 31 July 1998	Year ended 31 July 1997
		£	£
Turnover - continuing activities	1	9,873,949	996,750
Cost of sales		<u>(7,719,781)</u>	<u>(2,039,432)</u>
Gross profit / (loss)		2,154,168	(1,042,682)
Administrative expenses		<u>(5,432,518)</u>	<u>(3,369,102)</u>
Operating loss - continuing activities		(3,278,350)	(4,411,784)
Interest payable - bank interest		(7,903)	-
Interest receivable - bank interest		<u>55,433</u>	<u>30,346</u>
Loss on ordinary activities before taxation	4	(3,230,820)	(4,381,438)
Taxation	5	<u>-</u>	<u>-</u>
Loss on ordinary activities after taxation		(3,230,820)	(4,381,438)
Dividend on preference shares	9	<u>(200,000)</u>	<u>(124,100)</u>
Retained loss for the year	10	<u>(3,430,820)</u>	<u>(4,505,538)</u>

There were no material recognised gains and losses in the current or previous year other than those reported in the above profit and loss account.

There is no difference between the company's historical cost loss to that reported in the profit and loss account.

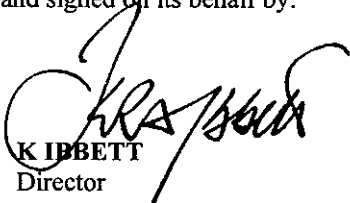
VIRGIN NET LIMITED

BALANCE SHEET

as at 31 July 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Tangible fixed assets	6	1,057,776	650,148
CURRENT ASSETS			
Debtors	7	786,998	617,272
Cash at bank		<u>2,427,245</u>	<u>1,461,826</u>
		3,214,243	2,079,098
CREDITORS:			
Amounts falling due within one year	8	<u>(5,588,275)</u>	<u>(2,564,682)</u>
NET CURRENT LIABILITIES		<u>(2,374,032)</u>	<u>(485,584)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(1,316,256)</u>	<u>164,564</u>
NET (LIABILITIES) / ASSETS		<u>(1,316,256)</u>	<u>164,564</u>
 CAPITAL AND RESERVES			
Called up share capital	9	7,500,000	5,750,000
Profit and loss account	10	<u>(8,816,256)</u>	<u>(5,585,436)</u>
SHAREHOLDERS' (DEFICIT) / FUNDS		<u>(1,316,256)</u>	<u>164,564</u>
 Shareholders' (deficit) / funds are split:			
Equity interests		(3,653,863)	(1,973,043)
Non-equity interests		<u>2,337,607</u>	<u>2,137,607</u>
		<u>(1,316,256)</u>	<u>164,564</u>

The financial statements were approved by the board of directors on 23 June 1999 and signed on its behalf by:


K IBBETT
 Director

VIRGIN NET LIMITED

Notes to the accounts For the year ended 31 July 1998

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards and on the basis of the following accounting policies, which have been applied consistently during the year.

a) Basis of accounting

The accounts have been prepared under the historical cost convention, and on a going concern basis in view of an undertaking from the company's shareholders to provide sufficient funding to enable the company to meet its liabilities as and when they fall due for the next twelve months.

The company is exempt from the requirement of Financial Reporting Standard 1 to prepare a cashflow statement as it is entitled to the filing exemptions as a small company under sections 246 to 249 of the Companies Act 1985 when filing accounts with the Registrar of Companies.

b) Fixed assets and depreciation

Depreciation is provided on a straight-line basis over the following periods to write off the cost of each tangible fixed asset over its estimated useful life:

Computer equipment	: 3 years
Fixtures and fittings	: 3-4 years
On-line operating system	: over first three years of full service
Leasehold improvements	: over the minimum period of the lease

c) Leases

Where the company enters into a lease which entails taking all of the risks and rewards of ownership of an asset the lease is treated as a "finance lease". There are no finance leases in the year.

All other leases are accounted for as "operating leases" and the rental charges are charged to the profit and loss account on a straight-line basis over the life of the lease.

d) Taxation

The charge for taxation is based on the result 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 for taxation is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

e) Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of services to customers.

Turnover and loss before taxation all arose from the principal activity of the company within the United Kingdom.

f) Pensions

The company operates a defined contribution scheme for its employees and executives. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost represents contributions payable by the company to the funds.

2 DIRECTORS' REMUNERATION

None of the directors received any remuneration from the company either this year or last year.

VIRGIN NET LIMITED

Notes to the accounts For the year ended 31 July 1998

3 STAFF NUMBERS AND COSTS

1998
£

1997
£

There were on average 70 (1997: 60) employees in the year.

The aggregate payroll costs of these employees for the year were:

Wages and salaries	1,988,388	1,201,392
Social security costs	205,290	118,515
Other pension costs	<u>43,062</u>	<u>14,822</u>
	<u><u>2,236,740</u></u>	<u><u>1,334,729</u></u>

4 LOSS ON ORDINARY ACTIVITIES BEFORE TAX

The loss on ordinary activities before tax is stated after charging:

Depreciation	459,851	105,006
Auditors' remuneration	<u>12,000</u>	<u>8,000</u>

5 TAXATION ON LOSS ON ORDINARY ACTIVITIES

No liability to taxation arises on the company's loss for the year due to the availability of losses (1997: £NIL).

6 TANGIBLE FIXED ASSETS

	Leasehold Improvements £	Fixtures & fittings £	Computer equipment £	On-line operating system £	Total £
<u>Cost</u>					
At 1 August 1997	185,219	27,198	358,128	211,717	782,262
Additions	<u>71,477</u>	<u>3,820</u>	<u>215,182</u>	<u>577,000</u>	<u>867,479</u>
At 31 July 1998	<u><u>256,696</u></u>	<u><u>31,018</u></u>	<u><u>573,310</u></u>	<u><u>788,717</u></u>	<u><u>1,649,741</u></u>
<u>Depreciation</u>					
At 1 August 1997	14,027	6,073	112,014	-	132,114
Charge for year	<u>194,959</u>	<u>4,271</u>	<u>163,059</u>	<u>97,562</u>	<u>459,851</u>
At 31 July 1998	<u><u>208,986</u></u>	<u><u>10,344</u></u>	<u><u>275,073</u></u>	<u><u>97,562</u></u>	<u><u>591,965</u></u>
<u>Net book value</u>					
At 31 July 1998	<u><u>47,710</u></u>	<u><u>20,674</u></u>	<u><u>298,237</u></u>	<u><u>691,155</u></u>	<u><u>1,057,776</u></u>
At 31 July 1997	<u><u>171,192</u></u>	<u><u>21,125</u></u>	<u><u>246,114</u></u>	<u><u>211,717</u></u>	<u><u>650,148</u></u>

7 DEBTORS

1998
£

1997
£

Trade debtors	582,639	198,761
Other debtors	170,618	289,002
Prepayments and accrued income	33,741	76,722
Other taxation	<u>-</u>	<u>52,787</u>
	<u><u>786,998</u></u>	<u><u>617,272</u></u>

VIRGIN NET LIMITED

Notes to the accounts For the year ended 31 July 1998

8 CREDITORS	1998	1997
Amounts falling due within one year:	£	£
Trade creditors	3,618,498	1,824,230
Loan from Isisfine	250,000	-
Deferred income	839,544	192,038
Taxation and social security	67,069	-
Other creditors	151,644	133,712
Accruals	<u>661,520</u>	<u>414,702</u>
	<u>5,588,275</u>	<u>2,564,682</u>

9 SHARE CAPITAL		
<u>Authorised</u>		
2,805,000 A ordinary shares of £1 each	2,805,000	2,040,000
2,695,000 B Ordinary shares of £1 each	2,695,000	1,960,000
2,000,000 Cumulative redeemable preference shares of £1 each	<u>2,000,000</u>	<u>2,000,000</u>
	<u>7,500,000</u>	<u>6,000,000</u>
<u>Allotted, called up and fully paid</u>		
2,805,000 A ordinary shares of £1 each	2,805,000	2,040,000
2,695,000 B Ordinary shares of £1 each	2,695,000	1,710,000
2,000,000 Cumulative redeemable preference shares of £1 each	<u>2,000,000</u>	<u>2,000,000</u>
	<u>7,500,000</u>	<u>5,750,000</u>

The cumulative preference shares attract a dividend of 10% net, per annum. A provision is made in the profit and loss account for the dividend relating to the financial year, although it is not due for payment. The total cumulative dividend accruing at the year-end is £337,607 (1997: £137,607).

10 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £	Profit and loss account £	Total £
As at 1 August 1997	5,750,000	(5,585,436)	164,564
Shares issued in year	1,750,000	-	1,750,000
Unpaid dividend	-	200,000	200,000
Loss for the year	<u>-</u>	<u>(3,430,820)</u>	<u>(3,430,820)</u>
As at 31 July 1998	<u>7,500,000</u>	<u>(8,816,256)</u>	<u>(1,316,256)</u>

11 COMMITMENTS

At 31 July 1998, the company had contracted capital commitments of £nil (1997: £1,060,000).

Annual Commitments under non-cancellable operating leases are as follows:	1998	1997
	£	£
Operating leases which expire in the second to fifth years inclusive	<u>108,756</u>	<u>108,756</u>

The operating lease relates to the rent payable on a property vacated by the company subsequent to the year-end in line with a commitment entered into during the year. The potential liability has been fully provided for in these accounts.

VIRGIN NET LIMITED

Notes to the accounts For the year ended 31 July 1998

12 TRANSACTIONS WITH RELATED PARTIES

At 31 July 1998 the company's principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Net Limited. The principal beneficiaries of those trusts are RCN Branson and his immediate family. The shareholders of Virgin Net 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.

During the year ended 31 July 1998, the company had the following related party transactions, and balances at the year-end:

	Transactions during the year £	Balance outstanding at the year-end £
Sales to:		
Virgin Radio Limited	18,500	40,067
Virgin Atlantic Airlines Limited	6,165	5,481
Management and Service Fees payable to:		
Isisfine Limited (formerly known as Virgin Communications Limited)	105,000	106,233
Trademark Fees payable to:		
Virgin Enterprises Limited	50,000	nil
Purchases from		
NTL Internet	7,198,883	3,459,713
Loan from:		
Isisfine Limited (formerly known as Virgin Communications Limited)	250,000	250,000

13 YEAR 2000

Along with all other Virgin companies, Virgin Net takes the Year 2000 problem very seriously. Our services are available on a 24-hour continuous basis so it is vitally important that we have a smooth transition into the new millennium.

In common with many other organisations, we and our suppliers, continue to assess all internal systems and equipment for Year 2000 readiness and taking action where appropriate in accordance with our Year 2000 compliance programme.

The functionality of the Virgin Net Internet service is entirely dependent on our outsourced network suppliers, NTL and they have assured us that their Year 2000 programme is well under way and that they are currently on schedule to meet their deadline.

We will also be establishing contingency plans so that we should be able to continue to provide services over the millennium date change period despite any unforeseen circumstance.

Any costs associated with the year 2000 programme are written off as incurred. We do not anticipate any material costs.

13 ULTIMATE HOLDING COMPANY

At 31 July 1998, the company was not part of any group. On 16 December 1998, a majority of the shares were purchased by Virgin Holdings SA, a company registered in Switzerland, which itself is ultimately owned by Virgin Travel Limited, registered in British Virgin Islands, which is now the company's ultimate holding company.