

**Virgin Net Limited**

**Directors' report and consolidated  
financial statements**

**Registered number 2833330**

**31 December 2001**



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29/10/02

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## Directors' report

The directors present their report and audited consolidated financial statements for the 17 month period ended 31 December 2001.

In the period Virgin Net Limited changed its accounting reference date from 31 July to 31 December.

### Principal activities

The principal activity of the company is an internet service provider in the UK.

### Business review and prospects

The business has significantly changed in the last quarter of 2001 in three respects. Firstly, the method of calculating subscriber numbers was changed. Secondly, the Virgin Net un-metered ISP service was launched. Thirdly, the ISP and Portal divisions were merged into a single group.

For the final quarter of 2001 Virgin Net and NTL agreed to report subscriber numbers based on a "Radius Active Customer" basis rather than deducting inactive customers from the registered base. This approach gave a lower but more accurate picture of the number of subscribers and helped to improve the financial performance of the ISP.

On 21 December 2001, Virgin Net launched the "24seven" un-metered access service. This allowed Virgin Net customers to go online, without paying local rate telephony charges, for a single monthly subscription. The service launched late and the absence of an un-metered offering was a key factor behind the slow net subscriber growth in 2001.

In October 2001, Virgin Net merged the ISP and Portal teams. This led to a significant number of roles being made redundant, particularly at the management level. The Portal and ISP businesses were effectively one by the end of 2001.

At the end of December 2001, Virgin Net had 440,953 active customers on the "Pay as you go" service and 3,782 on the "24seven" service. Marketing activity in key distribution channels (Virgin Megastore, Microsoft Referral Server) is expected to boost these numbers significantly throughout 2002.

The profitability of the "Pay as you go" service is expected to improve significantly with the start of new supply terms with NTL in January 2002. There are two key factors behind the performance of Virgin Net in 2002. Firstly, overall profitability for the year will be driven primarily by the speed with which un-metered customers can be taken on to fill the port commitment made by Virgin Net in May 2002. Secondly, future financial prospects will become much clearer once it has been able to launch a broadband DSL service.

Zarzeula Servicos de Consultoria Limitada, a 100% owned subsidiary, was incorporated in March 2001 and the results for the 9 month period ended 31 December 2001 have been consolidated.

Virgin Biznet Limited, a 100% owned subsidiary, ceased trading in October 2001 and is due to be wound up in the forthcoming year.

### Results and dividends

The results for the period are set out on page 5. The loss has been transferred to reserves.

The cumulative preference shares attract a dividend of either 10% or 13% net, per annum. A provision has been made in the profit and loss account for the dividend of £849,167 (31 July 2000: £200,000) relating to the financial period, although it is not due for payment. The directors are unable to recommend the payment of any dividend (July 2000: £nil) as the company has insufficient distributable reserves.

## Directors' report

### Directors' interests

The directors of the company and their rights to subscribe for shares at the beginning and end of the period, are shown in the table below:

	Notes	Number of share options at the beginning and end of the period	Exercise price	Date from which exercisable
Sir RCN Branson (resigned 20 December 2000)	1	-	-	-
KRA Ibbett	2	44,813	£1.00	10 Aug 98
		14,937	£1.00	10 Aug 00
J Gregg	3	43,050	£1.00	10 Aug 98
		14,350	£1.00	10 Aug 00
B Knapp (resigned 20 December 2000)	3	-	-	-
G McCallum (resigned 20 December 2000; reappointed 24 January 2001)		-	-	-
L Wood (alternate to B Knapp, resigned 19 December 2000)		-	-	-
A Steele (alternate to J Gregg, appointed 4 May 2001)		-	-	-

- 1 Sir R Branson is interested in the whole of the issued A ordinary shares by virtue of his interest in Virgin Group Investments Limited, the ultimate owner of the shares, registered in the British Virgin Islands.
- 2 59,750 non-voting ordinary shares were issued to Mr K Ibbett in September 2000.
- 3 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 Cabeltel Ventures Limited (which is 100% owned by NTL Inc), the owner of the shares, a corporation organised under the laws of the state of Delaware U.S.A.

The options expire seven years after the grant date. None of the options have lapsed or been exercised during the period.

### Auditors

Our auditors KPMG have indicated to the directors that their business has transferred to a limited liability partnership, KPMG LLP. Accordingly, they have indicated their intention to resign as auditors of the company and the directors intend to appoint KPMG LLP to fill the vacancy arising. A resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

PG Gram  
Secretary



120 Campden Hill Road  
London W8 7AR

24 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 the group 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group 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 group and to prevent and detect fraud and other irregularities.



PO Box 695  
8 Salisbury Square  
London  
EC4Y 8BB

## **Independent auditors' report to the members of Virgin Net Limited**

We have audited the financial statements on pages 5 to 20.

### **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 affairs of the company and the group as at 31 December 2001 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

28 October 2002

## Consolidated profit and loss account

for the 17 month period ended 31 December 2001

	<i>Note</i>	<b>Period ended 31 December 2001 £</b>	<b>Year ended 31 July 2000 £</b>
<b>Turnover</b>	<i>1</i>	<b>24,473,750</b>	14,015,022
Cost of sales		<b>(16,868,599)</b>	(11,676,811)
<b>Gross profit</b>		<b>7,605,151</b>	2,338,211
Administrative expenses		<b>(26,799,603)</b>	(23,888,471)
<b>Group operating loss</b>	<i>2,3</i>	<b>(19,194,452)</b>	(21,550,260)
Interest payable	<i>5</i>	<b>(38,367)</b>	(330,588)
Interest receivable - bank interest		<b>207,025</b>	143,600
<b>Loss on ordinary activities before taxation</b>	<i>4</i>	<b>(19,025,793)</b>	(21,737,248)
Taxation	<i>6</i>	-	-
<b>Loss on ordinary activities after taxation</b>		<b>(19,025,793)</b>	(21,737,248)
Dividend on preference shares	<i>12</i>	<b>(849,167)</b>	(200,000)
<b>Retained loss for the period</b>	<i>13</i>	<b>(19,874,960)</b>	(21,937,248)

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

The results are derived from continuing operations. There is no difference between the group's historical cost loss to that reported in the profit and loss account.

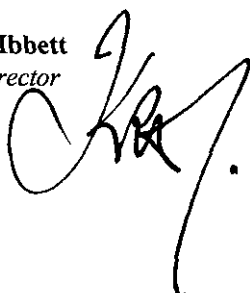
## Consolidated balance sheet

at 31 December 2001

	Note	£	As at 31 December 2001 £	£	As at 31 July 2000 £
<b>Fixed assets</b>					
Tangible fixed assets	7		1,095,843		1,323,514
Investments	8		500,000		-
			<u>1,595,843</u>		<u>1,323,514</u>
<b>Current assets</b>					
Debtors	9	16,215,050		7,361,955	
Cash at bank		944,898		6,192,836	
		<u>17,159,948</u>		<u>13,554,791</u>	
<b>Creditors: amounts falling due within one year</b>	10	(23,313,783)		(6,727,076)	
		<u></u>		<u></u>	
<b>Net current (liabilities)/assets</b>			(6,153,835)		6,827,715
			<u></u>		<u></u>
<b>Total assets less current liabilities</b>			(4,557,992)		8,151,229
<b>Provision for liabilities and charges</b>	11		-		(10,000)
			<u></u>		<u></u>
<b>Net (liabilities)/assets</b>			(4,557,992)		8,141,229
			<u></u>		<u></u>
<b>Capital and reserves</b>					
Called up share capital	12		13,317,888		8,099,035
Share premium account	13		37,326,881		33,343,970
Shares to be issued	13		-		3,060,036
Profit and loss account	13		(55,202,761)		(36,361,812)
			<u></u>		<u></u>
<b>Shareholders' (deficit)/funds</b>	14		(4,557,992)		8,141,229
			<u></u>		<u></u>
<b>Shareholders' (deficit)/funds are split</b>					
Equity interests			(4,128,782)		5,303,622
Non-equity interests			8,686,774		2,837,607
			<u>(4,557,992)</u>		<u>8,141,229</u>

These financial statements were approved by the board of directors on 24 October 2002 and were signed on its behalf by:

K Ibbett  
Director





## Company balance sheet

at 31 December 2001

	Note	£	As at 31 December 2001 £	£	As at 31 July 2000 £
<b>Fixed assets</b>					
Tangible fixed assets	7		1,091,158		1,216,795
Investments	8		503,061		2
			<hr/>		<hr/>
			1,594,219		1,216,797
<b>Current assets</b>					
Debtors	9	16,088,262		9,966,182	
Cash at bank		925,962		6,192,836	
		<hr/>		<hr/>	
		17,014,224		16,159,018	
<b>Creditors: amounts falling due within one year</b>	10	(23,191,068)		(5,736,612)	
		<hr/>		<hr/>	
<b>Net current (liabilities)/assets</b>					
Due within one year			(6,176,844)		10,422,406
Debtors due after more than one year	9		926,329		-
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			(3,656,296)		11,639,203
<b>Provision for liabilities and charges</b>	11		-		(10,000)
			<hr/>		<hr/>
<b>Net (liabilities)/assets</b>			(3,656,296)		11,629,203
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital	12		13,317,888		8,099,035
Share premium account	13		37,326,881		33,343,970
Shares to be issued	13		-		3,060,036
Profit and loss account	13		(54,301,065)		(32,873,838)
			<hr/>		<hr/>
<b>Shareholders' (deficit)/funds</b>	14		(3,656,296)		11,629,203
			<hr/>		<hr/>
<b>Shareholders' (deficit)/funds are split</b>					
Equity interests			(5,030,478)		8,791,596
Non-equity interests			8,686,774		2,837,607
			<hr/>		<hr/>
			(3,656,296)		11,629,203
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 24 October 2002 and were signed on its behalf by:

K Ibbett  
Director



## Consolidated cash flow statement

for the 17 month period ended 31 December 2001

	Note	Period ended 31 December 2001 £	Year ended 31 July 2000 £
<b>Reconciliation of operating profit to net cash flow from operating activities</b>			
Operating loss		(19,194,452)	(21,550,260)
Depreciation charges		1,065,202	962,712
Loss on disposal of fixed assets		337,954	-
Increase in debtors		(8,853,095)	(5,729,567)
Increase/(decrease) in creditors		16,586,707	(613,821)
Decrease in provision for liabilities		(10,000)	(1,438,106)
Deferred compensation expense		184,844	2,135,475
<b>Net cash outflow from operating activities</b>		<b>(9,882,840)</b>	<b>(26,233,567)</b>
Returns on investments and servicing of finance	18	168,659	(186,988)
Capital expenditure and financial investment	18	(1,675,485)	(1,195,902)
<b>Cash outflow before management of liquid resources and financing</b>		<b>(11,389,666)</b>	<b>(27,616,457)</b>
Financing	18	6,141,728	31,003,040
<b>(Decrease)/increase in cash in the year</b>		<b>(5,247,938)</b>	<b>3,386,583</b>
<b>Reconciliation of net cash flow to movement in net funds</b>			
(Decrease)/increase in cash in the period	19	(5,247,938)	3,386,583
Net funds at the start of the period		6,192,836	2,806,253
<b>Net funds at end of the period</b>	19	<b>944,898</b>	<b>6,192,836</b>

## 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 group's financial statements.

#### ***Basis of preparation***

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

The financial statements have been prepared on a going concern basis in view of an undertaking from the group's ultimate shareholders, Virgin Group Investments Limited and NTL Inc. to provide sufficient funding to enable the group to meet its liabilities as and when they fall due for the next twelve months.

The directors have no reason to believe that the shareholders 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.

#### ***Basis of consolidation***

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2001. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, over which it exercises significant influence. The participating interest has not been accounted for as an associate as Virgin Net Limited do not exercise significant influence over the operating and financial policies of the entity.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

#### ***Investments***

In the company's balance sheet, investments in subsidiary undertakings and associates are stated at cost. In the group's balance sheet, investments are stated at cost, less any provision for permanent diminution in value.

#### ***Fixed assets and depreciation***

Depreciation is provided on a straight-line basis over the following periods to write off the cost less the estimated residual value 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 21 months

#### ***Leases***

Where the group enters into a lease which entails taking, substantially all of the risks and rewards of ownership of an asset the lease is treated as a "finance lease". There were no finance leases in the period.

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.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Taxation*

The charge for taxation is based on the result for the period 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.

#### *Turnover*

Turnover is the amount invoiced by the group (excluding value added tax) in respect of services to customers. All turnover is derived from the United Kingdom.

#### *Pensions*

The group operates a defined contribution scheme 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 contributions payable by the group to the funds.

#### *Employee share options*

Employee share options are accounted for in accordance with UITF No. 17 Employee Share Schemes. The difference between the exercise price and the market value at date of grant, if any, is recognised as a charge in the profit and loss account on a straight-line basis over the vesting period.

#### *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.

### 2 Directors' remuneration

None of the directors received any remuneration from the group either this period or last year. Mr G McCallam is an employee of Virgin Management Limited ('VML') and management charges are made to the group by VML to cover certain emoluments and other costs. It is not possible to allocate a proportion of the charge to the emoluments of Mr G McCallam.

## Notes (continued)

### 3 Staff numbers and costs

There were on average 133 (2000: 132) employees in the period.

The aggregate payroll costs of these persons were as follows:

	31 December 2001 £	31 July 2000 £
Wages and salaries	8,161,828	4,347,163
Social security costs	808,545	494,250
Other pension costs	104,532	63,277
Compensation expense	184,844	2,135,475
	<hr/> 9,259,749 <hr/>	<hr/> 7,040,165 <hr/>

Compensation expense represents the difference between the exercise price of options granted and the market value of the options at the date of grant and is recognised in accordance with the stated accounting policy.

### 4 Loss on ordinary activities before taxation

	31 December 2001 £	31 July 2000 £
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Rentals payable under operating leases – building	-	352,000
Depreciation	1,055,202	962,712
Auditors' remuneration:		
Group – Audit	20,000	19,000
- Other services	10,000	-
Loss on disposal of fixed assets	377,954	-
	<hr/> 377,954 <hr/>	<hr/> 971,712 <hr/>

Audit fees in respect of the company amounted to £20,000 (2000: £15,000).

### 5 Interest payable

	31 December 2001 £	31 July 2000 £
On bank overdrafts	3	-
On all other loans	38,364	-
Other interest payable	-	330,588
	<hr/> 38,367 <hr/>	<hr/> 330,588 <hr/>

## Notes (continued)

### 6 Taxation on loss on ordinary activities

No liability to taxation arises on the group's loss for the period due to the availability of losses (2000: *£nil*).

### 7 Tangible fixed assets

Group	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	On-line operating system £	Total £
<b>Cost</b>					
At 31 July 2000	534,529	103,649	2,011,364	836,587	3,486,129
Additions	-	52,513	1,122,441	531	1,175,485
Disposals	-	(9,868)	(560,719)	-	(570,587)
At 31 December 2001	534,529	146,294	2,573,086	837,118	4,091,027
<b>Depreciation</b>					
At 31 July 2000	442,874	38,003	895,151	786,587	2,162,615
Charge for period	91,655	42,123	881,424	50,000	1,065,202
On disposals	-	(9,868)	(222,765)	-	(232,633)
At 31 December 2001	534,529	70,258	1,553,810	836,587	2,995,184
<b>Net book value</b>					
At 31 December 2001	-	76,036	1,019,276	531	1,095,843
At 31 July 2000	91,655	65,646	1,116,213	50,000	1,323,514
<b>Company</b>					
	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	On-line operating system £	Total £
<b>Cost</b>					
At 31 July 2000	534,529	95,454	1,873,734	836,587	3,340,304
Additions	-	46,208	822,344	-	868,552
Disposals	-	-	(122,992)	-	(122,992)
At 31 December 2001	534,529	141,662	2,573,086	836,587	4,085,864
<b>Depreciation</b>					
At 31 July 2000	442,874	36,883	857,165	786,587	2,123,509
Charge for period	91,655	32,897	793,254	50,000	967,806
On disposals	-	-	(96,609)	-	(96,609)
At 31 December 2001	534,529	69,780	1,553,810	836,587	2,994,706
<b>Net book value</b>					
At 31 December 2001	-	71,882	1,019,276	-	1,091,158
At 31 July 2000	91,655	58,571	1,016,569	50,000	1,216,795

## Notes (continued)

### 8 Fixed asset investments

Group	Participating interests £
<i>Shares</i>	
<i>Cost</i>	
At beginning of period	-
Additions	500,000
<b>At end of period</b>	<b>500,000</b>

The participating interest has not been accounted for as an associate. Virgin Net Limited holds 40% of the voting rights, however it does not exercise significant influence over the operating and financial policies of that entity.

Company	Shares in group undertakings £	Participating interests £	Total £
<i>Shares</i>			
<i>Cost</i>			
At beginning of period	2	-	2
Additions	3,059	500,000	503,059
<b>At end of period</b>	<b>3,061</b>	<b>500,000</b>	<b>503,061</b>

The companies in which the company's interest at the period end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held
<i>Subsidiary undertakings</i>			
Virgin Biznet Limited	United Kingdom	Ceased trading October 2001/ Dormant	Ordinary shares 100%
Zarzuela Servicios de Consultoria Limitada	Madeira	Application service provider	Ordinary shares 100%
<i>Participating interests</i>			
Swwwoosh Limited	United Kingdom	Holding company	Ordinary shares 40%
			Preference shares 100%

## Notes (continued)

### 9 Debtors

	Group		Company	
	31 December 2001	31 July 2000	31 December 2001	31 July 2000
	£	£	£	£
<b><i>Due within one year</i></b>				
Trade debtors	15,445,311	4,405,807	15,445,311	3,990,513
Amounts owed by related undertakings	163,576	41,783	163,576	3,169,822
Other debtors	131,054	302,255	4,266	218,609
Prepayments and accrued income	314,277	2,234,046	314,277	2,209,174
Other taxation	160,832	378,064	160,832	378,064
	<hr/>	<hr/>	<hr/>	<hr/>
	16,215,050	7,361,955	16,088,262	9,966,182
<b><i>Due after more than one year</i></b>				
Amounts owed by subsidiary company	-	-	926,329	-
	<hr/>	<hr/>	<hr/>	<hr/>
	16,215,050	7,361,955	17,014,591	9,966,182
	<hr/>	<hr/>	<hr/>	<hr/>

### 10 Creditors: amounts falling due within one year

	Group		Company	
	31 December 2001	31 July 2000	31 December 2001	31 July 2000
	£	£	£	£
Trade creditors	17,156,471	3,322,336	17,156,471	2,979,673
Deferred income	219,155	571,293	219,155	571,293
Other creditors	41,702	480,987	15,658	480,987
Owed to group undertakings	2,722,290	293,555	3,601,661	293,555
Accruals	3,174,165	2,058,905	2,198,123	1,411,104
	<hr/>	<hr/>	<hr/>	<hr/>
	23,313,783	6,727,076	23,191,068	5,736,612
	<hr/>	<hr/>	<hr/>	<hr/>

Included within the amounts owed to group companies as at 31 December 2001 is £2,010,000 of loans repayable on demand. Interest is payable at rates between 5.0 – 15.0% per annum above three month LIBOR.



## Notes (continued)

### 11 Provisions for liabilities and charges

The provision for liabilities and charges is made up as follows:

	Group		Company	
	31 December 2001 £	31 July 2000 £	31 December 2001 £	31 July 2000 £
At 31 July 2000	10,000	1,448,106	10,000	1,448,106
Provision released	(10,000)	(1,438,106)	(10,000)	(1,438,106)
<b>At 31 December 2001</b>	<b>-</b>	<b>10,000</b>	<b>-</b>	<b>10,000</b>

This provision related to the estimated write-off required for the call centre which had been established during 1999. This was utilised during the current financial period.

### 12 Called up share capital

	31 December 2001 £	31 July 2000 £
<b>Authorised</b>		
A Ordinary shares of £1 each	5,865,000	5,865,000
B Ordinary shares of £1 each	5,635,000	5,635,000
Non-voting ordinary shares of £1 each	455,650	455,650
10% Cumulative redeemable preference shares of £1 each	2,100,000	2,100,000
13% Cumulative redeemable preference shares of £1 each	5,000,000	-
	<b>19,055,650</b>	<b>14,055,650</b>
<b>Allotted, called up and fully paid</b>		
A Ordinary shares of £1 each	3,113,137	3,018,037
B Ordinary shares of £1 each	2,991,051	2,977,998
Non-voting ordinary shares of £1 each	113,700	3,000
10% Cumulative redeemable preference shares of £1 each	2,100,000	2,100,000
13% Cumulative redeemable preference shares of £1 each	5,000,000	-
	<b>13,317,888</b>	<b>8,099,035</b>

## Notes (continued)

### 12 Called up share capital (continued)

In September 2000, 81,514 "A" ordinary shares of £1 each were issued at £37.54 each, in accordance with a share allotment agreement of June 2000. 110,700 non-voting ordinary shares were issued in September 2000; 90,700 were issued at par and 20,000 were issued at £2.55 each. In November 2000, 13,586 "A" ordinary shares and 13,053 "B" ordinary shares were issued at £37.54 each. In February 2001 the authorised share capital was increased to 19,055,650 by the creation of 5,000,000 new 13% cumulative redeemable preference shares of £1.00 each. These shares were issued in February 2001 at par. In all cases the shares were issued in order to increase the working capital of the company.

The cumulative preference shares attract a dividend of 10% and 13% net, per annum. A provision is made in the profit and loss account for the dividend of £849,167 (31 July 2000: £200,000) relating to the financial period, although it is not due for payment. The total cumulative dividend accruing at the period end is £1,586,774 (31 July 2000: £737,607).

#### Share options

At 31 December 2001, the company had granted options to subscribe for 779,560 options over non-voting ordinary shares at prices ranging between £1 and £77.00 per share. Options to subscribe for 175,000 were granted in the period ending 31 December 2001. The options granted do not contain any specific performance conditions. 189,650 of the share options were exercisable at 31 December 2001, the remainder are exercisable between January 2002 and April 2004.

### 13 Share premium and reserves

	Share premium £	Share to be issued £	Profit and loss account £
<b>Group</b>			
As at 31 July 2000	33,343,970	3,060,036	(36,361,812)
Shares issued in period	3,982,911	(3,060,036)	-
Unpaid dividend	-	-	849,167
Loss for the period	-	-	(19,874,960)
Charge in relation to share related awards	-	-	184,844
<b>At 31 December 2001</b>	<b>37,326,881</b>	<b>-</b>	<b>(55,202,761)</b>
	<hr/>	<hr/>	<hr/>
	Share premium £	Share to be issued £	Profit and loss account £
<b>Company</b>			
As at 31 July 2000	33,343,970	3,060,036	(32,873,838)
Shares issued in period	3,982,911	(3,060,036)	-
Unpaid dividend	-	-	849,167
Loss for the period	-	-	(22,461,238)
Charge in relation to share related awards	-	-	184,844
<b>At 31 December 2001</b>	<b>37,326,881</b>	<b>-</b>	<b>(54,301,065)</b>
	<hr/>	<hr/>	<hr/>

**Notes (continued)**

**14 Reconciliation of movement in shareholders' funds**

	<b>Total £</b>
<b>Group</b>	
As at 31 July 2000	8,141,229
Shares issued in period	6,141,728
Unpaid dividend	849,167
Loss for the period	(19,874,960)
Charge in relation to share related awards	184,844
	<hr/>
<b>At 31 December 2001</b>	<b>(4,557,992)</b> <hr/>
	<b>Total £</b>
<b>Company</b>	
As at 31 July 2000	11,629,203
Shares issued in period	6,141,728
Unpaid dividend	849,167
Loss for the period	(22,461,238)
Charge in relation to share related awards	184,844
	<hr/>
<b>At 31 December 2001</b>	<b>(3,656,296)</b> <hr/>

## Notes (continued)

### 15 Transactions with related parties

During the period ended 31 December 2001, the group had the following related party transactions and balances at the period end:

	Transactions during the period £	Balance outstanding at the period end £
<b>Sales to:</b>		
Virgin Direct	8,615	-
Virgin Radio	18,800	18,800
Virgin Cars	(6,345)	(6,345)
Virgin Atlantic	11,750	-
Virgin Mobile	59,541	59,541
Virgin Money	-	1,086
Virgin.Com	22,031	-
Virgin Management	56,961	78,123
Virgin Wines	2,788	6,024
Virgin Energy	3,525	-
NTL Internet	13,047,483	15,486,291
 Management and service fees payable to:		
Virgin Management	189,850	(632,112)
 Trademark fees payable to:		
Virgin Enterprises Limited	58,750	(58,750)
	£	£
<b>Purchases from:</b>		
NTL Internet	18,830,250	(19,773,409)
Virgin Atlantic	21,451	-
Virgin Holidays	(4,787)	4,787
Virgin Wines	1,181	-
Virgin Vouchers	10,758	(10,758)
Virgin Com	87,984	(87,208)
Virgin Student	9,878	(9,878)
Virgin Radio	23,500	-
Virgin Projets	1,293	-
Virgin Mobiles	29,005	(418)
Virgin Limobikes	194	-
Virgin Travelstore	-	(66)
Voyager	511,423	(511,423)

**Notes (continued)**

**16 Ultimate holding company**

On 5 September 2000 the A ordinary shares were transferred from Virgin Holdings SA, a company registered in Switzerland, to Virgin Retail Holding Limited, a company registered in the British Virgin Islands.

Virgin Retail Holdings Limited is itself ultimately owned by Virgin Group Investments Limited, registered in the British Virgin Islands, which continues to be the Virgin Net Limited's ultimate holding company. 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 his immediate family.

The largest group in which the results of the company and its subsidiaries are consolidated is that headed by Virgin Group Investments Limited. The consolidated accounts of this company are not available to the public.

**17 Pension scheme**

The group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the group to the scheme and amounted to £104,532 (2000: £63,277).

There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

**Notes (continued)**

**18 Analysis of cash flows**

	Period ended 31 December 2001 £	Year ended 31 July 2000 £
<b>Returns on investment and servicing of finance</b>		
Interest received	207,026	143,600
Interest paid	(38,367)	(330,588)
	<u>168,659</u>	<u>(186,988)</u>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(1,175,485)	(1,258,031)
Purchase of investment	(500,000)	-
Sale of tangible fixed assets	-	62,129
	<u>(1,675,485)</u>	<u>(1,195,902)</u>
<b>Financing</b>		
Issue of ordinary share capital	6,141,728	27,943,004
Shares to be issued	-	3,060,036
	<u>6,141,728</u>	<u>31,003,040</u>

**19 Analysis of net funds**

	At beginning of period £	Cash flow £	At end of period £
Cash in hand, at bank	6,192,836	(5,247,938)	944,898
	<u>6,192,836</u>	<u>(5,247,938)</u>	<u>944,898</u>