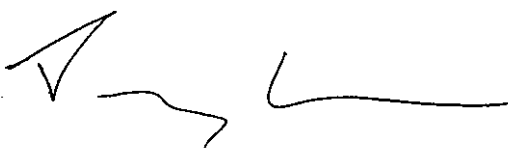


Balance sheet
at 31 December 1997

	Note	31 December 1997	
		£000	£000
Fixed assets			
Investments	2		31,086
Creditors: amounts falling due within one year	3	(24,785)	
Net current liabilities			(24,785)
Net assets			6,301
Capital and reserves			
Called up share capital	4		54
Share premium account			6,247
Equity shareholders' funds			6,301

This balance sheet was approved by the board of directors on 7 April 1998 and signed on its behalf by:



Jeremy Pearce
Director



V2 Music (Holdings) Limited

Company balance sheet

31 December 1997

Registered number 3353454

Contents

Statement of directors' responsibilities	1
Report of the auditors to V2 Music (Holdings) Limited	2
Statement of the auditors to V2 Music (Holdings) Limited	3
Balance sheet	4
Notes	5

Statement of directors' responsibilities

In accordance with the provisions of section 43 of the Companies Act 1985, the directors are responsible for the preparation of the attached balance sheet which has been prepared for the purpose of the proposed re-registration of the company as a public limited company. The directors are required to prepare the balance sheet in accordance with the provisions of the Companies Act 1985 which would have applied had the balance sheet been prepared in respect of a financial year of the company thus requiring, inter alia, the balance sheet to give a true and fair view of the state of affairs of the company. In preparing the balance sheet, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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 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 balance sheet complies 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.

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 balance sheet.

Basis of preparation

The balance sheet has been prepared in accordance with applicable accounting standards, under the historical cost accounting rules and on a going concern basis, in view of an undertaking from its shareholders to provide sufficient funds to enable the company to meet its liabilities as and when they fall due, in the event that the bond issue does not proceed.

Investments

In the company's accounts, investments in subsidiary undertakings are stated at cost less amounts written off.

2 Investments

	Shares in group undertakings £000	Loans to group undertakings £000	Total £000
<i>Cost and net book value</i>			
At 31 December 1997	50	31,036	31,086

The directors are of the opinion that the value of investments is equal to or greater than their book value.

The principal subsidiaries of V2 Music (Holdings) Limited at 31 December 1997 were as follows:

	Percentage of ordinary shares owned	Country of incorporation
Directly held:		
V2 Music (Holdings) Limited	100%	British Virgin Islands
Indirectly held:		
V2 Music Group Limited	100%	UK
V2 Music Limited	100%	UK
V2 Holdings (USA) Inc	100%	USA
V2 Records Inc	100%	USA
Gee Street Records Inc	80%	USA
V2 Music Scandinavia AB	100%	Sweden
V2 Records GmbH	100%	Germany
V2 Music (France) Sarl	100%	France
Big Cat (UK) Records Ltd	49%	UK
V2 Records Belgium	100%	Belgium
V2 Records (Netherlands) BV	100%	The Netherlands
V2 Records Australia Pty Limited	100%	Australia
V2 Records Italy SRL	100%	Italy

Notes (continued)

3 Creditors: amounts falling due within one year

	1997 £000
Other creditors	15
Amounts owed to the Virgin trusts	10,270
Amounts owed to The McCarthy Corporation	3,000
Amounts owed to Virgin Management Limited	11,500
	<hr/>
	24,785
	<hr/>

Interest is charged on all loans at a rate of 2¼% above LIBOR. All interest charged in the period to 31 December 1997 has been borne by group undertakings.

4 Called up share capital

	1997 £000
<i>Authorised</i>	
Equity: 83,333 ordinary shares at £1 each	83
<i>Allotted, called up and fully paid</i>	
Equity: 53,907 ordinary shares at £1 each	54

5 Contingent liabilities

The directors have not been notified of any litigation which they consider will result in a material liability to the Group, either individually or in aggregate.