

**V2 Music (Holdings) Limited**  
*(formerly V2 Music (Holdings) PLC)*

**Directors' report and consolidated  
financial statements**

Registered number 3353454

For the year ended 30 June 2002



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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2002.

### Principal activities

The principal activities of the Group in the year under review were the production and sale of phonographic recordings, and the acquisition and exploitation of copyrights in songs in the UK, continental Europe, the USA and Japan.

On 20 March 2002, the Company was re-registered as a private company and renamed V2 Music (Holdings) Limited.

### Business review

Against the background of a difficult market for music worldwide, the Group's trading performance continued to improve during the year with a 2% increase in Group turnover compared to the prior year. The UK in particular experienced an excellent year's trading, fuelled by 1.5 million sales of "Just Enough Education To Perform" by Stereophonics (the biggest selling album by a British band last year), from April 2001 to June 2002, and enjoyed their first number one single with "Just A Little" by Liberty X from the platinum selling album, "Thinking It Over". Internationally, The White Stripes album "White Blood Cells" has sold some 350,000 albums in the US by June 2002, and Billy Crawford's first single "Trackin'" has reached sales of 750,000 worldwide (excluding North America and Japan). Operating expenses reduced further as a result of the restructuring and continuing efforts to cut costs, but increased investment in new artists (essential to the long term success of the Group) particularly in the UK and North America saw the Group's operating losses before exceptional charges increase to £17.0 million compared to £16.2 million in the prior year.

On 28 March 2002, Morgan Stanley & Co., Incorporated ("Morgan Stanley") acquired a 47.5% stake in the Company by converting the majority of the \$128,121,000 (£90,098,453) 6.5% Guaranteed Exchangeable Notes due 2012 held by them, and accrued interest of £3,123,437, into equity. As part of the same restructuring, Virgin Group Investments Limited ("VGIL") has reduced its equity holding to 52.5%. 530,000 of the 4,000,000 15% cumulative preference shares held by VGIL were converted to ordinary shares and the dividend payable on the 3,470,000 remaining preference shares was reduced to 6%. Both shareholders and their associates have committed to provide further funding to the Company totalling £7,000,000 and have provided an uncommitted facility of £7,000,000. Further details are given in Note 1.

Prior to the financial restructuring, a number of additional measures were taken to significantly reduce overhead costs in the Group. The full benefit of this will be seen in the year to 30 June 2003.

As a result of both the above financial restructuring and the continuing success of a number of the Group's artists, the Group looks forward to a successful future. New releases for financial year 2003 include Stereophonics, Granddaddy, Aimee Mann, Underworld, The White Stripes and Tom Jones. Great things are also expected from exciting new signings including The Datsuns, Burning Brides and Rust.

### Results for the year and proposed dividends

The retained loss of the Group for the year was £47,516,000 (2001: £31,162,000).

The directors are unable to recommend the payment of a dividend on the ordinary share capital of the Company (2001: £nil). The unpaid preference dividends in the year on the paid up value of the 15% cumulative preference shares amounted to £498,000 (2001: £600,000). During the year 530,000 of new 15% cumulative preference shares were converted into A ordinary shares and the remainder had their rights varied to become 6% cumulative preference shares.

## Directors' report *(continued)*

### Directors and directors' interests

The directors who held office during and subsequent to the year were as follows:

Sir Richard Branson	(Chairman)
STM Murphy	(re-appointed 10 January 2002)
JW Pearce	(resigned 23 February 2002)
KRA Ibbett	(appointed 25 June 2001)
SWH Navin	(appointed 24 December 2001; resigned 30 September 2002)
MG Fisher	(resigned 10 January 2002)
M Poole	(resigned 12 March 2002)
A Brenner	(appointed 28 March 2002)
M Petrick	(appointed 28 March 2002)
AD Harlow	(appointed 1 October 2002)

The directors who held office at the end of the financial year had the following interests in the shares of the Company at the beginning and end of the year:

Sir Richard Branson:	<b>A Convertible Shares</b>	<b>A ordinary Shares</b>	<b>Deferred Shares</b>	<b>Preference Shares</b>	<b>Total</b>
At 30 June 2002	-	30,959,144,925	-	3,470,000	30,962,614,925
At 30 June 2001	4,211,147	14,538,803	3,750,050	4,000,000	26,500,000

The 30,962,614,925 shares in which Sir Richard Branson was interested were held by Virgin Group Investments Limited in which he has an interest.

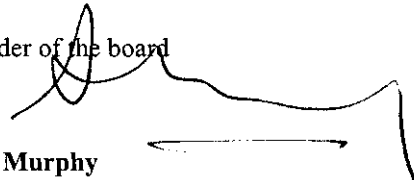
No other director had any interest in the share capital of the Company.

No directors who held office at the end of the financial year had any options to acquire ordinary shares in the company.

According to the register of directors' interests, no 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 were exercised by them, or lapsed during the financial year.

### Auditors

During the year the business of KPMG was transferred to a limited liability partnership, KPMG LLP. Accordingly, KPMG resigned as auditors on 11 June 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising. A resolution for the appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board  
  
STM Murphy  
Director

120 Campden Hill Road  
London  
W8 7AR

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



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## **Report of the independent auditors to the members of V2 Music (Holdings) Limited**

We have audited the financial statements on pages 5 to 30.

### ***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 Group'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 30 June 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**KPMG LLP**  
Chartered Accountants  
Registered Auditor

31 October 2002

## Consolidated profit and loss account

for the financial year ended 30 June 2002

	Note	2002 £000	2001 £000
Turnover: group and share of joint venture		52,890	52,460
Less: share of joint venture's turnover		(1,352)	(1,778)
<b>Group turnover</b>	2	<b>51,538</b>	<b>50,682</b>
Cost of sales		(43,441)	(39,570)
<b>Gross profit</b>		<b>8,097</b>	<b>11,112</b>
Operating expenses – ordinary activities	3	(24,812)	(26,803)
<b>Group operating loss</b>		<b>(16,715)</b>	<b>(15,691)</b>
Share of operating losses in joint venture		(263)	(522)
<b>Total operating loss</b>		<b>(16,978)</b>	<b>(16,213)</b>
Loss on disposal of subsidiary – continuing operations		(252)	(42)
<b>Loss on ordinary activities before interest and tax</b>		<b>(17,230)</b>	<b>(16,255)</b>
Other interest receivable and similar income	7	134	137
Interest payable and similar charges - ordinary activities	8	(11,851)	(14,277)
- exceptional charges	8	(17,956)	-
<b>Total interest payable and similar charges</b>		<b>(29,807)</b>	<b>(14,277)</b>
<b>Loss on ordinary activities before taxation</b>	2-8	<b>(46,903)</b>	<b>(30,395)</b>
Tax on loss on ordinary activities	9	(110)	(157)
<b>Loss on ordinary activities after taxation</b>		<b>(47,013)</b>	<b>(30,552)</b>
Equity minority interests		(5)	(10)
<b>Loss for the financial year</b>		<b>(47,018)</b>	<b>(30,562)</b>
Non-equity appropriation	18	(498)	(600)
<b>Retained loss for the financial year</b>	18	<b>(47,516)</b>	<b>(31,162)</b>

The results are derived from continuing activities and have been prepared on the historical cost basis.

The notes on pages 10 to 30 form part of these financial statements.

## Consolidated balance sheet

at 30 June 2002

	Note	2002 £000	2001 £000
<b>Fixed assets</b>			
Tangible assets	10	1,688	2,159
Investments	11	96	55
		<u>1,784</u>	<u>2,214</u>
<b>Current assets</b>			
Stocks	12	539	463
Debtors	13	19,803	17,124
Cash at bank and in hand	14	5,325	2,908
		<u>25,667</u>	<u>20,495</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(26,212)</u>	<u>(87,669)</u>
<b>Net current liabilities</b>		<u>(545)</u>	<u>(67,174)</u>
<b>Total assets less current liabilities</b>		<u>1,239</u>	<u>(64,960)</u>
<b>Creditors: amounts falling due after more than one year</b>	16	<u>(26,432)</u>	<u>(74,516)</u>
<b>Provision for joint venture deficit:</b>			
Share of gross assets		451	454
Share of gross liabilities		(805)	(544)
		<u>(354)</u>	<u>(90)</u>
<b>Net liabilities</b>		<u>(25,547)</u>	<u>(139,566)</u>
<b>Capital and reserves</b>			
Called up share capital	17	147,376	76
Shares to be issued	17	1,340	12,825
Share premium	18	34,420	23,232
Capital redemption reserve	18	19	-
Profit and loss reserve	18	(208,744)	(175,734)
		<u>25,589</u>	<u>139,601</u>
<b>Equity shareholders' deficit</b>		<u>(31,446)</u>	<u>(145,490)</u>
<b>Non-equity shareholders' funds</b>		<u>5,857</u>	<u>5,889</u>
		<u>(25,589)</u>	<u>(139,601)</u>
<b>Minority interests - equity</b>		<u>42</u>	<u>35</u>
<b>Shareholders' deficit</b>		<u>(25,547)</u>	<u>(139,566)</u>

These financial statements were approved by the board of directors on **31 October** 2002 and were signed on its behalf by:

  
**STM Murphy**  
Director

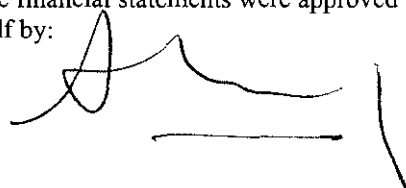
The notes on pages 10 to 30 form part of these financial statements.

# Company balance sheet

at 30 June 2002

	Note	2002 £000	2001 £000
<b>Current assets</b>			
Debtors	13	15	15
<b>Creditors: amounts falling due within one year</b>	15	(2,088)	(65,974)
<b>Net current liabilities</b>		(2,073)	(65,959)
<b>Total assets less current liabilities</b>		(2,073)	(65,959)
<b>Creditors: amounts falling due after more than one year</b>	16	(26,432)	(74,516)
<b>Net liabilities</b>		(28,505)	(140,475)
<b>Capital and reserves</b>			
Called up share capital	17	147,376	76
Shares to be issued	17	1,340	12,825
Share premium	18	34,420	23,232
Capital redemption reserve	18	19	-
Profit and loss reserve	18	(211,660)	(176,608)
<b>Shareholders' deficit</b>		(28,505)	(140,475)
Equity shareholders' deficit		(34,362)	(146,364)
Non- equity shareholders' funds		5,857	5,889
		(28,505)	(140,475)

These financial statements were approved by the board of directors on 31 October 2002 and were signed on its behalf by:



**STM Murphy**  
Director

The notes on pages 10 to 30 form part of these financial statements.

**Consolidated cash flow statement**  
*for the financial year ended 30 June 2002*

	<i>Note</i>	<b>2002</b> <b>£000</b>	2001 £000
Cash outflow from operating activities	22	<b>(15,903)</b>	(17,576)
Returns on investments and servicing of finance	24	<b>(26,853)</b>	(6,185)
Taxation		<b>(110)</b>	(157)
Capital expenditure	24	<b>(195)</b>	(492)
Acquisitions and disposals	24	<b>(52)</b>	(55)
		<hr/>	<hr/>
Cash outflow before financing		<b>(43,113)</b>	(24,465)
<b>Financing</b>	24	<b>45,530</b>	23,464
		<hr/>	<hr/>
Increase/(decrease) in cash in the year		<b>2,417</b>	(1,001)
		<hr/>	<hr/>

## Consolidated statement of total recognised gains and losses

for the year ended 30 June 2002

	2002 £000	2001 £000
<b>Loss for the year attributable to the Group</b>	<b>(47,018)</b>	<b>(30,562)</b>
Currency translation differences on foreign currency net investments	2,798	(2,055)
Credit in relation to repurchase of warrants	11,203	-
Charge in relation to share related awards	7	6
<b>Total gains and losses recognised in the year</b>	<b>(33,010)</b>	<b>(32,611)</b>

## Reconciliation of movements in shareholders' deficit

for the year ended 30 June 2002

	2002 Group £000	2002 Company £000	2001 Group £000	2001 Company £000
Loss for the financial year	(47,516)	(46,760)	(31,162)	(72,253)
Add back of non-equity appropriation	498	498	600	600
Foreign exchange loss/(gain)	2,798	-	(2,055)	-
Charge in relation to share related awards	7	7	6	6
Net proceeds from issue of shares	158,506	158,506	-	-
Repurchase of deferred shares	(281)	(281)	-	-
Net reduction in shareholders' funds	114,012	111,970	(32,611)	(71,647)
Opening shareholders' deficit	(139,601)	(140,475)	(106,990)	(68,828)
<b>Closing shareholders' deficit</b>	<b>(25,589)</b>	<b>(28,505)</b>	<b>(139,601)</b>	<b>(140,475)</b>
<b>Attributable to:</b>				
Equity shareholders	(31,446)	(34,362)	(145,490)	(146,364)
Non-equity shareholders	5,857	5,857	5,889	5,889
	<b>(25,589)</b>	<b>(28,505)</b>	<b>(139,601)</b>	<b>(140,475)</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 financial statements.

The company has adopted FRS 19 Deferred Tax in these 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 the fact that a refinancing and restructuring exercise has been completed during the year. This has resulted in capitalisation of debt and has made available future funding from the shareholders. Under these arrangements, on 28 March 2002, Morgan Stanley & Co., Incorporated ("Morgan Stanley") acquired a 47.5% stake in the Company by converting the majority of the \$128,121,000 (£90,098,453) 6.5% Guaranteed Exchangeable Notes due 2012 held by them, and accrued interest of £3,123,437, into equity. The balance of the Exchangeable Notes was converted into a secured loan from Morgan Stanley Dean Witter Bank Limited ("MSDW") in the principal amount of £12,000,000 (the "MSDW loan"), bearing interest at LIBOR plus 2% payable quarterly in arrears (although interest is being deferred and capitalised for the first 18 months). This is secured by a fixed and floating charge over certain businesses and assets of the Group. As part of the same restructuring, Virgin Group Investments Limited ("VGIL") reduced its equity holding to 52.5%, with all but £8,800,000 of the £86,119,319 of loans made by Ivanco (No. 1) Limited (a subsidiary of VGIL) to the group, and accrued interest thereon, being converted to capital. The £8,800,000 remains outstanding as a secured interest-bearing loan on the same terms as the MSDW loan. VGIL also holds preference shares paid up as to £3,470,000 the rights of which were varied as part of the restructuring. MSDW and Ivanco (No.1) Limited have committed to provide further loans to the Company totalling £7,000,000 and have provided an uncommitted facility of £7,000,000, all on broadly similar terms to the MSDW loan. £5,250,000 of the funding had been drawn by the year end with a further £3,250,000 in the four months to 31 October 2002. The remaining balance is considered by the directors to be sufficient funding for the Company and Group to be able to meet its liabilities as and when they fall due, for at least the next twelve months from the date of signing of these accounts.

#### *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiary and quasi subsidiary undertakings ("the Group") made up to 30 June. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year 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 and over which it exercised significant influence. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

The Group entered into a joint arrangement that is not an entity during the year. This is a contractual arrangement between the participants to conduct certain activities jointly where those activities do not amount to the joint venture carrying on a trade or business of its own. Joint arrangements that are not entities are accounted for in the group's financial statements by accounting for the assets, liabilities and cash flows of the arrangement, measured according to the terms of the agreement governing the arrangements.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Basis of consolidation (continued)*

In accordance with Section 230 (4) of the Companies Act 1985, V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC) is exempt from the requirement to present its own profit and loss account. The Company's loss for the financial year is £46,262,000 (2001: £72,253,000) after provision of £19,280,000 (2001: £55,099,000) against investments in and loans to subsidiaries.

#### *Goodwill*

Goodwill arising on the acquisition of subsidiaries, representing the excess of the cost of the acquisition over the fair value of the underlying assets and liabilities, is capitalised and written off over its estimated useful economic life. The carrying value of goodwill is periodically reviewed for any identified impairment. On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging (crediting) the unamortised amount of any related goodwill.

#### *Foreign currencies*

Profit and loss accounts and cash flow statements in foreign currencies are translated into sterling at the average rates during the year, calculated as the average of the month end rates, with the year end adjustment to closing rates being taken to reserves. Assets and liabilities in foreign currencies are translated using the rates of exchange ruling at the balance sheet date. Gains or losses on translation of the opening net assets of overseas subsidiaries are taken to reserves. Exchange differences arising from the retranslation of long term foreign currency borrowings used to finance foreign currency investments are also taken to reserves in accordance with SSAP 20. All other exchange differences are taken to the profit and loss account.

#### *Investments*

In the Company's accounts, investments in subsidiary and associated undertakings are stated at cost less amounts written off for impairment. Dividends received and receivable are credited to the Company's profit and loss account to the extent that they represent a realised profit for the Company.

#### *Fixed assets and depreciation*

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:

Leasehold land and buildings	-	life of lease
Computer equipment	-	2 to 10 years
Fixtures, fittings and equipment	-	3 to 5 years

#### *Impairment*

The Group 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.

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Leases*

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

#### *Turnover*

Turnover for sales of physical stock represents the invoiced value of goods and services provided to customers outside of the Group and is net of discounts, value added tax and provisions for goods likely to be returned.

Turnover for licence income represents advances received and amounts reported to the Group in statements received during the year.

Turnover in respect of mechanical and performance royalties represents amounts reported to the Group in statements received in the year.

Turnover for synchronisation fees and sundry publishing income represents amounts invoiced during the year and is net of value added tax.

#### *Cost of sales*

Cost of sales includes manufacturing costs and other direct costs of sales together with the write off of unrecovered advances (in accordance with the policy set out under record royalties above) to the extent that the directors consider that their recovery cannot be reasonably regarded as assured.

#### *Record royalties payable*

Provision is made for royalties payable at the end of each accounting period in respect of income receivable on sales of records arising during each accounting period.

Advances and other recoupable costs paid against future royalties are carried forward and recognised as an asset where such advances relate to current unreleased productions of established artists and where it is estimated that sufficient future royalties will be earned for recoupment for those productions. Following release, such advances are only carried forward if it is estimated that sufficient royalties will be earned to recoup the advance on the relevant productions.

Non-recoupable recording, production and development costs in addition to the catalogue of recorded music are wholly written off as incurred.

#### *Pensions and other post retirement benefits*

The Group operates, in conjunction with other Virgin group companies, defined contribution schemes for its employees and executives. The assets of the schemes 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 schemes*

The costs of awards to employees that take the form of shares or rights to shares are recognised over the period of the employees' related performance.

## Notes (continued)

### 1 Accounting policies (continued)

#### Taxation and deferred taxation

The company adopted Financial Reporting Standard 19 Deferred tax ("FRS 19") during the year. 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 at 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.

Irrecoverable withholding tax suffered is expensed in the profit and loss account in the period in which it arises.

#### Cash

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

#### Finance costs

Costs incurred in raising funds are deducted from the amount raised and amortised over the life of the debt facility on a constant-yield basis, unless they relate primarily to new equity funding and only partly to debt funding, in which case they are expensed during the year. Any unamortised amounts are released to the profit and loss account if debt facilities are repaid in advance by their repayment dates.

### 2 Analysis of turnover, loss before taxation and net liabilities by geographical location

Origin	Turnover £000	Loss before interest and Taxation £000	Net Liabilities £000
2002			
United Kingdom	15,935	(7,869)	49,618
Rest of Europe	16,923	(2,282)	(18,067)
North America	17,328	(6,819)	(55,575)
Rest of World	1,352	(260)	(1,523)
	<u>51,538</u>	<u>(17,230)</u>	<u>(25,547)</u>
Origin		Loss before interest and taxation £000	Net Liabilities £000
2001			
United Kingdom	9,795	(8,804)	(69,103)
Rest of Europe	18,968	(2,528)	(15,987)
North America	20,141	(4,391)	(53,219)
Rest of World	1,778	(532)	(1,257)
	<u>50,682</u>	<u>(16,255)</u>	<u>(139,566)</u>

Turnover by destination is not materially different from turnover by origin shown above.

The turnover and loss before interest and tax for the Rest of the World represents entirely that of V2 Records Japan Inc. The net liabilities of V2 Records Japan Inc. at 30 June 2002 were £354,000 (2001: £90,000).

## Notes (continued)

### 3 Net operating expenses

	2002 £000	2001 £000
Distribution and selling costs	4,988	5,512
Administrative expenses	19,824	21,291
	<u>24,812</u>	<u>26,803</u>

### 4 Operating loss

	2002 £000	2001 £000
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Provision - against recoupable costs (net of recoupments)	4,562	1,703
Auditors' remuneration:		
Audit	203	215
Other fees	6	29
Depreciation and other amounts written off tangible fixed assets:		
Owned	618	879
Amortisation of goodwill	-	62
Hire of other assets - operating leases	217	284
Land and buildings - operating leases	562	636
	<u>6,165</u>	<u>3,803</u>

The auditors' remuneration for audit services to the Company was £52,000 (2001: £52,000) and was paid by a subsidiary company in both years.

### 5 Remuneration of directors

The emoluments of the highest paid director, who was the only director to receive any remuneration from the Group during the year, were as follows:

	2002 £000	2001 £000
Directors' emoluments		
- basic	272	390
- compensation for loss of office	176	-
- pension	36	30
	<u>484</u>	<u>420</u>

The director's pension contributions are to a money purchase pension scheme. In addition to the above, one of the directors was appointed as a consultant to fill the role of CEO on a temporary basis, and he invoiced the Group in the amount of £81,000 during the year.

## Notes (continued)

### 6 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category was as follows:

	Number of employees	
	2002	2001
Marketing and promotion	110	104
Administration	117	134
	<u>227</u>	<u>238</u>

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	9,998	10,303
Social security costs	1,625	1,406
Other pension costs	135	119
	<u>11,758</u>	<u>11,828</u>

### 7 Other interest receivable and similar income

	2002 £000	2001 £000
Receivable on bank deposits	<u>134</u>	<u>137</u>

### 8 Interest payable and similar charges

	2002 £000	2001 £000
Interest and finance costs of Guaranteed Exchangeable / Senior Discount		
Notes payable to related parties	4,542	6,520
Amounts payable to Group undertakings	4,712	5,142
Amounts payable to related parties	200	-
Amounts payable on other loans	31	48
Net exchange losses	2,366	2,567
Exceptional charges	17,956	-
	<u>29,807</u>	<u>14,277</u>

Exceptional charges of £17,956,000 includes £15,672,000 in respect of previously capitalised costs incurred in raising finance which have now been expensed as the debt facilities to which they related have been repaid and £2,284,000 in respect of professional fees associated with the financial restructuring exercise which took place during the year.

## Notes (continued)

### 9 Taxation

	2002 £000	2001 £000
UK corporation tax at 30% (2001: 30%)	42	88
Less relief for overseas tax	(42)	(88)
Overseas withholding tax	110	157
	<hr/>	<hr/>
Corporation tax charge	110	157
	<hr/>	<hr/>

#### Factors affecting the tax charge for the current period

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

	2002 £000	2001 £000
Loss on ordinary activities before tax	(46,903)	(30,395)
	<hr/>	<hr/>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	(14,071)	(9,119)
Effects of:		
Expenses not deductible for tax purposes	7,426	3,902
Capital allowances for year in excess of depreciation	92	148
Unrelieved tax losses	6,744	5,240
Utilisation of brought forward tax losses	(218)	(31)
Unrelieved foreign tax suffered	69	17
Other short term timing differences	68	-
	<hr/>	<hr/>
Current tax charge for year	110	157
	<hr/>	<hr/>

#### Factors affecting the future tax charge

A deferred tax asset of £54,862,000,000 (2001: £49,032,000) relating to carried forward tax losses and other timing differences has not been recognised in view of the inherent uncertainty surrounding its recoverability.

	2002 £000	2001 £000
Capital allowances in excess of depreciation	671	579
General provisions	119	50
Unrelieved tax losses	54,072	48,403
	<hr/>	<hr/>
Total unprovided deferred tax asset	54,862	49,032
	<hr/>	<hr/>

**Notes (continued)**

**10 Tangible fixed assets - Group**

	Short leasehold land and buildings £000	Computer equipment £000	Fixtures, Fittings and equipment £000	Total £000
<b>Cost</b>				
At beginning of year	1,316	3,486	1,532	6,334
Additions	29	156	26	211
Disposals	-	(64)	(19)	(83)
Exchange difference	(51)	17	(10)	(44)
At end of year	1,294	3,595	1,529	6,418
<b>Depreciation</b>				
At beginning of year	256	3,037	882	4,175
Charge for the year	68	414	136	618
Depreciation on disposals	0	(49)	(18)	(67)
Reclassification	-	(232)	232	0
Exchange difference	1	(7)	10	4
At end of year	325	3,163	1,242	4,730
<b>Net book value</b>				
At 30 June 2002	969	432	287	1,688
At 30 June 2001	1,060	449	650	2,159

The Company has no tangible fixed assets.

## Notes (continued)

### 11 Fixed asset investments

	2002 £000	2001 £000
<b>Group</b>		
Cost and net book value		
Investments	96	55

The joint ventures and participating interests of V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC) as at 30 June 2002 were as follows:

Indirectly held:	Percentage of ordinary shares owned	Country of incorporation
V2 Records Japan Inc.	50%	Japan
Excelsior Recordings BV	33%	Netherlands
Distrishop	33%	Netherlands

The principal activities of V2 Records Japan Inc. are the production and sale of phonographic recordings. V2 Records Japan Inc. has been accounted for as a joint venture.

The principal activities of Excelsior Recordings BV are the production and sale of phonographic recordings. An investment of £55,000 has been made prior to formal incorporation of the company. The Group does not have significant influence over the operating and financial policies of Excelsior Recordings BV. Consequently the Group does not believe that it is appropriate to equity account for its share of results. The investment has been accounted for at cost.

The principal activity of Distrishop BV is the distribution of phonographic recordings. The Group does not have significant influence over the operating and financial policies of Distrishop BV. Consequently the Group does not believe that it is appropriate to equity account for its share of results. The investment has been accounted for at cost.

Company	Shares in group undertakings £000	Loans to group undertakings £000	Total £000
<b>Cost</b>			
At start of year	57	125,496	125,553
Additional funding during the year	-	19,280	19,280
At end of year	57	144,776	144,833
<b>Provisions</b>			
At start of year	57	125,496	125,553
Provided in year	-	19,280	19,280
At end of year	57	144,776	144,833
<b>Net book value</b>			
At 30 June 2002	-	-	-
At 30 June 2001	-	-	-

In view of the recent trading performance of the Group, the directors consider the value of loans to and investments in subsidiary undertakings to be £nil.

## Notes (continued)

### 11 Fixed asset investments (continued)

The principal subsidiaries of V2 Music (Holdings) Limited as at 30 June 2002 were as follows:

Company	Percentage of Ordinary shares owned	Country of Incorporation
<b>Directly held:</b>		
V2 Music Group Limited	100%	England & Wales
<b>Indirectly held:</b>		
V2 Music Limited	100%	England & Wales
V2 Holdings (USA) Inc	100%	USA
V2 Records Inc	100%	USA
Gee Street Records Inc	100%	USA
V2 Music Scandinavia AB	100%	Sweden
V2 Records GmbH	100%	Germany
V2 Music (France) Sarl	100%	France
V2 Records Italy S.r.l.	100%	Italy
V2 Records Nederland B.V.	100%	Holland
V2 Records Belgium B.V.B.A	100%	Belgium
V2 Records Hellas SA	65%	Greece
V2 Matrix Limited	100%	England & Wales

All the subsidiaries are involved in the production and sale of phonographic recordings, or the acquisition and exploitation of copyrights in songs.

During the year the Group disposed of its 85% investment in Big Cat (UK) Records Limited to the minority shareholder, for consideration of £1. This resulted in a loss on disposal of £252,000.

V2 Music (Holdings) Limited funds entities with minority shareholders. These are usually new enterprises whose outlook is uncertain and where the minority shareholders are not expected to contribute to the losses; consequently, the full loss of each of these entities for the year has been included in the Group's results for the year and the full liabilities in the Group balance sheet.

Had this approach not been adopted, the Group's losses would have been £62,500 lower (2001: £24,000 lower) and its liabilities would have been £68,000 lower (2001: £630,000 lower).

V2 Finance SA is considered to be a quasi-subsidiary of the Company, and has been accounted for as if it were a wholly-owned subsidiary in accordance with Financial Reporting Standard No.5 (see note 16).

**Notes (continued)**

**12 Stocks**

<b>Group</b>	<b>2002 £000</b>	<b>2001 £000</b>
Finished goods and goods for resale	<b>539</b>	<b>463</b>

The Company holds no stock.

**13 Debtors: due within one year**

	<b>Group 2002 £000</b>	<b>Company 2002 £000</b>	<b>Group 2001 £000</b>	<b>Company 2001 £000</b>
Trade debtors	<b>8,228</b>	-	7,835	-
Owed by related undertakings (see note 19)	<b>366</b>	-	178	-
Other debtors	<b>11,209</b>	<b>15</b>	9,111	15
	<b>19,803</b>	<b>15</b>	17,124	15

**14 Cash at bank and in hand**

Included within cash at bank and in hand is an amount of £351,000 relating to the Group's share of its Joint Arrangement that is Not an Entity bank account, and these funds are therefore restricted.

**15 Creditors: amounts falling due within one year**

	<b>Group 2002 £000</b>	<b>Company 2002 £000</b>	<b>Group 2001 £000</b>	<b>Company 2001 £000</b>
Trade creditors	<b>5,658</b>	-	5,557	-
Amounts owed to subsidiary undertakings	-	<b>1,682</b>	-	930
Amounts owed to related undertakings (see note 19)	-	-	65,157	64,867
Other creditors including taxation and social security	<b>1,773</b>	-	1,312	-
Accruals and deferred income	<b>18,781</b>	<b>406</b>	15,643	177
	<b>26,212</b>	<b>2,088</b>	87,669	65,974

No interest is payable on amounts owed to subsidiary undertakings.

## Notes (continued)

### 16 Creditors: amounts falling due after more than one year

	Group 2002 £000	Company 2002 £000	Group 2001 £000	Company 2001 £000
Amounts owed to Group undertakings	12,483	12,483	-	-
Amounts owed to related undertakings (see note 19)	13,949	13,949	-	-
Guaranteed Exchangeable Notes due 2012	-	-	90,449	90,449
Less future finance costs	-	-	(15,933)	(15,933)
	<u>26,432</u>	<u>26,432</u>	<u>74,516</u>	<u>74,516</u>
	Group 2002 £000	Company 2002 £000	Group 2001 £000	Company 2001 £000
Amounts falling due:				
Between one and two years	382	382	-	-
Between two and five years	26,050	26,050	-	-
After more than five years	-	-	74,516	74,516
	<u>26,432</u>	<u>26,432</u>	<u>74,516</u>	<u>74,516</u>

The amounts owed to Group and related undertakings have been lent to the Group under a facility agreement dated 28 March 2002, which forms part of the financial restructuring exercise that took place during the year. They are repayable three years from the date of first drawn down for each facility.

Interest is accruing on these loans at LIBOR plus 2%, and becomes payable eighteen months after the first draw down, whereupon it is payable quarterly in arrears.

The amounts owed to related parties are secured over all the property and assets of the Company and the following subsidiaries: V2 Music Group Limited, V2 Music Limited, V2 Music Publishing (Holdings) Limited, V2 Music Publishing Limited, V2 Records International, V2 Matrix Limited, and JBO Limited.

#### Guaranteed Exchangeable Notes due 2012

As part of the Group's Financial restructuring exercise, which took place on 28 March 2002, the Guaranteed Exchangeable Notes with aggregate principal amount of \$128,121,000, which were due to a company which is now a related undertaking, were repaid in full. The future finance costs on these notes, which were being amortised for over the term of the notes, were expensed to the profit and loss account on their repayment. (see note 8)

Exchange gains arising on these notes of £77,000 (30 June 2000: loss £4,615,000) are included within finance costs in the profit and loss account.

The notes were issued by V2 Finance SA (incorporated in Luxembourg), a separate legal entity 100% of whose shares are held in the names of trustees of a Virgin Trust. V2 Finance SA, when it issued the Notes, provided an intercompany loan to V2 Music Holdings Ltd (formerly V2 Music (Holdings) PLC) in the same amount.

Had V2 Finance SA not been consolidated as a quasi subsidiary (see note 11) then the Group financial statements would have recognised an additional liability of £197,000 at 30 June 2002 (30 June 2001: £113,000).

**Notes (continued)**

**17 Called up share capital and shares to be issued**

	2002 Number	2002 £000	2001 Number	2001 £000
<b>Authorised</b>				
<b>Equity:</b>				
A Ordinary Shares of 0.25p each	30,959,144,925	77,398	26,675,985	67
A Convertible Ordinary Shares of 0.25p each	-	-	4,211,147	10
Deferred Shares of 0.25p each	9,212,868	23	9,112,868	23
B Ordinary Shares of 0.25p each	27,999,673,673	69,999	-	-
	<u>58,968,031,466</u>	<u>147,420</u>	<u>40,000,000</u>	<u>100</u>
<b>Non-equity:</b>				
15% Cumulative Preference Shares of 0.25p each	-	-	4,000,000	10
6% Cumulative Preference Shares of 0.25p each	3,470,000	9	-	-
	<u>58,971,501,466</u>	<u>147,429</u>	<u>44,000,000</u>	<u>110</u>
<b>Allotted, called up and fully paid</b>				
	2002 Number	2002 £000	2001 Number	2001 £000
<b>Equity:</b>				
A Ordinary Shares of 0.25p each	30,947,007,743	77,368	14,538,803	36
A Convertible Ordinary Shares of 0.25p each	-	-	4,211,147	11
Deferred Shares of 0.25p each	-	-	7,654,593	19
B Ordinary Shares of 0.25p each	27,999,673,673	69,999	-	-
	<u>58,946,681,416</u>	<u>147,367</u>	<u>26,404,543</u>	<u>66</u>
<b>Non-equity:</b>				
15% Cumulative Preference Shares of 0.25p each	-	-	4,000,000	10
6% Cumulative Preference Shares of 0.25p each	3,470,000	9	-	-
	<u>58,950,151,416</u>	<u>147,376</u>	<u>30,404,543</u>	<u>76</u>
<b>Shares to be issued:</b>	<u>-</u>	<u>1,340</u>	<u>-</u>	<u>12,825</u>

## Notes (continued)

### 17 Called up share capital and shares to be issued (continued)

#### *A Ordinary shares of 0.25p*

On 28 March 2002, all of the 4,211,147 A convertible ordinary shares of 0.25p were redesigned as A ordinary shares of 0.25p, and 530,000 of the 4,000,000 15% cumulative preference shares of 0.25p were redesigned as A ordinary shares of 0.25p. On the same date, 30,927,727,793 new A ordinary shares of 0.25p were issued by the company at par value for consideration of £77,319,319.

#### *A Convertible ordinary shares of 0.25p*

As described above on 28 March 2002, all of the A convertible ordinary shares of 0.25p were redesigned as A ordinary shares of 0.25p.

#### *B Ordinary shares of 0.25p*

On 28 March 2002, the company issued 27,999,673,673 B ordinary shares of 0.25p for consideration of £81,187,041, being £69,999,184 par value and £11,187,857 share premium.

#### *Deferred shares*

On 28 March 2002, the company repurchased all of the deferred shares of 0.25p for a cash consideration of £1. This resulted in the creation of a capital redemption reserve of £19,000.

#### *Preference shares*

On 28 March 2002, 530,000 of the 15% cumulative preference shares were converted to A ordinary shares, as described above, and the remaining 3,470,000 15% cumulative preference shares were converted to 6% preference shares.

A provision is made in the profit and loss account for the dividend relating to the financial year to 30 June 2002 although it is not due for payment. The dividend accruing in respect of the period ended 27 March 2002 amounts to £444,000. The dividend on the 6% cumulative preference shares accruing in respect of the period from 28 March 2002 to 30 June 2002 amounts to £54,000. This results in a total preference share dividend accrued of £498,000 (2001: £600,000)

The A ordinary and B ordinary shares rank *pari passu*.

The Preference Shares are redeemable on the Company giving the preference shareholders not less than one and not more than three months notice. On a winding up they would rank first and would be entitled to subscription price and accrued dividend. The Preference Shares do not carry any voting rights.

On a winding up the Deferred Shares rank last and the holders would be entitled to the par value. The Deferred Shares do not carry any voting rights.

#### *Shares to be issued*

In May 1998, a subsidiary of the Group issued 49,750 Sterling Warrants to acquire 12.3228 A ordinary shares of the Company of 0.25p each at an exercise price of 1p per share, subject to adjustment, to holders of the Senior Discount Sterling Notes. The Group at the same time issued 157,650 Dollar Warrants to acquire 7.4100 A ordinary shares of the Company at an exercise price of 1p per share, subject to adjustment, to the holders of the Senior Discount Dollar Notes. The notes to which these related were changed to the Guaranteed Exchangeable Notes due 2012 (see note 18). During the year as part of the financial restructuring referred to in Note 1, the 38,100 of the Sterling Warrants and 151,900 of the Dollar Warrants have been cancelled as they were repurchased by the Company, for cash consideration of £174,365 and £106,799 respectively. This led to a movement in reserves of £11,203,357, which has been shown in the consolidated Statement of Total Recognised Gains and Losses. In accordance with FRS4 the net proceeds of issue of the remaining Warrants (£1,340,478) have been included within shareholders funds as shares to be issued.

## Notes (continued)

### 17 Called up share capital and shares to be issued (continued)

#### Employee share options

No options were exercised or lapsed in the period to 30 June 2002.

The exercise price and vesting period of the options granted to date are as follows:

Date granted	Exercise price	Number of options	Vesting period
1 April 1999	£0.01	471,858	Three equal tranches on first, second and third anniversary of date of grant but must be exercised within seven years of the date of the grant
1 April 1999	£3.20	471,853	As above
1 April 1999	£6.40	471,853	As above

The difference between the exercise price and the directors' assessment of the market value at the date of grant is recognised as a charge in the profit and loss account on a straight line basis over the vesting period.

The terms of the employee share options have not been altered as a result of the financial restructuring of the Group which took place during the year.

### 18 Reserves

#### Group

	Capital Redemption Reserve £000	Share premium account £000	Profit and loss account £000	Total £000
At beginning of year	-	23,232	(175,734)	(152,502)
Retained loss for the year attributable to equity shareholders	-	-	(47,516)	(47,516)
Premium arising on issue of B ordinary shares	-	11,188	-	11,188
Exchange adjustments	-	-	2,798	2,798
Credit in relation to repurchase of warrants	-	-	11,203	11,203
Charge in relation to share related awards	-	-	7	7
Unpaid preference dividends	-	-	498	498
Purchase of deferred shares	19	-	-	19
<b>At end of year</b>	<b>19</b>	<b>34,420</b>	<b>(208,744)</b>	<b>(174,305)</b>

The capital redemption reserve was created following the repurchase by the company of its deferred shares as part of the financial restructuring that took place on 28 March 2002 (see note 17).

## Notes (continued)

### 18 Reserves (continued)

#### Company

	Capital Redemption Reserve £000	Share premium account £000	Profit and loss account £000	Total £000
At beginning of year	-	23,232	(176,608)	(153,376)
Retained loss for the year attributable to equity shareholders	-	-	(46,760)	(46,760)
Premium arising on issue of B ordinary shares	-	11,188	-	11,188
Change in relation to repurchase of warrants	-	-	11,203	11,203
Charge in relation to share related awards	-	-	7	7
Unpaid preference dividends	-	-	498	498
Purchase of deferred shares	19	-	-	19
At end of year	<u>19</u>	<u>34,420</u>	<u>(211,660)</u>	<u>(177,221)</u>

The capital redemption reserve was created following the repurchase by the company of its deferred shares as part of the financial restructuring that took place on 28 March 2002 (see note 17).

## Notes (continued)

### 19 Related party transactions

V2 Music (Holdings) Limited (formerly V2 Music (Holdings) PLC) has taken advantage of the exemption under Financial Reporting Standard No 8: Related Party Disclosures (FRS 8), which enables it to exclude disclosure of transactions with subsidiary undertakings in which it has an interest of 90% or more.

At 30 June 2002, the Company was a 52.5% subsidiary undertaking of 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 8.

During the year ended 30 June 2002, the company had the following related party transactions:

	2002 £000	2001 £000
<b>Parent undertakings:</b>		
Management fees and fees for other services paid to/(from)	(454)	454
Proceeds from share subscriptions	77,319	-
Creditors	-	454
<b>Related group undertakings:</b>		
Management fees and fees for other services paid	796	737
Interest payable	4,613	898
Loan drawdown	29,577	29,036
Loan repayment	77,319	-
Creditors	12,563	64,703
<b>Related party undertakings:</b>		
Management fees and fees for other services paid	1,567	-
Interest payable	199	-
Loan drawdown	13,750	-
Proceeds from sales of warrants to the group	281	-
Proceeds from share subscriptions	81,187	-
Loan repayment	93,202	-
Creditors	13,949	-
<b>Associated undertakings:</b>		
Administrative recharges payable	(188)	(56)
Debtor	(366)	(178)

The parent undertaking that the group transacted with during the year was Virgin Group Investments Limited.

The related group undertakings that the group transacted with during the year were Virgin Atlantic Airways Limited, Virgin Management Limited, Virgin Group Limited, Virgin Retail Limited, Our Price Limited, Virgin Projects Limited, Virginstudent.com, Virgin Megastores, V Shop, Virgin Travelstore, and Ivanco No.1 Limited.

The related party undertakings that the group transacted with during the year was Morgan Stanley Dean Witter.

The associated undertaking that the group transacted with during the year was V2 Records Japan Inc.

### 20 Contingent liabilities

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

## Notes (continued)

### 21 Commitments

- (a) The Company has no capital commitments. Capital commitments of the Group at the end of the financial year, for which no provision has been made other than the amounts drawn down to date, were as follows:
- (i) Under the terms of a sale and purchase agreement dated 11 September 1997, V2 Music Publishing Holdings (USA) Inc acquired 75% of the share capital of In Bed Music Inc and Realisation Music Limited (two music publishing businesses). Pursuant to a shareholder agreement entered into simultaneously with Kate Hyman (the minority shareholder) the Group is granted a call option enabling it to acquire the remaining shares from the minority shareholder at a price dependent on the average net receipts of the companies in the preceding two year period ending on the date the option is exercised. If not exercised, the options reverts to the minority shareholder, on similar terms.
- (ii) Under the terms of a sale and purchase agreement dated 8 May 1998, Timbuktu Music Limited ("Timbuktu", a wholly owned subsidiary of V2 Music Group Limited) acquired the assets and trade of Timbuktu Records (UK) Limited and entered into a shareholder agreement pursuant to which Timbuktu issued 80% of its shares to the Group and 10% to each of the two directors of Timbuktu Records (UK) Limited. The acquisition was completed on 2 July 1998. The shareholder agreement also contains put and call options enabling the Group to acquire the shares from the minority shareholders at a price dependent on the average net profit of Timbuktu in the three year period ending on the exercise date. If not exercised, the option reverts to the minority shareholder, on similar terms.
- (iii) The Group was committed to make contracted advances to artists totalling £137,000 at 30 June 2002 (2001: £228,000).
- (b) Annual commitments under non-cancellable operating leases are as follows:

	Group 2002		Group 2001	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
In less than one year	145	47	164	155
In the second to fifth years inclusive	488	123	143	119
Over five years	-	-	320	-
	<u>633</u>	<u>170</u>	<u>627</u>	<u>274</u>

The Company has no operating lease commitments.

**Notes (continued)**

**22 Notes to the cash flow statement**

	2002 £000	2001 £000
<b>Reconciliation of operating loss to net cash flow from operating activities</b>		
Total operating loss	(16,978)	(16,213)
Depreciation and amortisation	618	941
Share of loss of joint venture	263	522
(Increase) in stocks	(76)	(98)
(Increase) in debtors	(3,011)	(4,672)
Increase in creditors	3,281	1,944
<b>Net cash outflow from operating activities</b>	<b>(15,903)</b>	<b>(17,576)</b>

**23 Reconciliation of net cash flow to movement in net debt**

	2002 £000	2001 £000
<b>Increase/(decrease) in cash in the year</b>	<b>2,417</b>	<b>(1,001)</b>
Net borrowings raised	112,420	(23,464)
<b>Change in net debt resulting from cash flows</b>	<b>114,837</b>	<b>(24,465)</b>
Non cash movements:		
Amortisation of discount on issue of Guaranteed Exchangeable/ Senior Discount Notes and capitalised finance costs	-	(6,520)
Exchange gain/(loss) on financing	77	(5,482)
<b>Movement in net debt in the year</b>	<b>114,914</b>	<b>(36,467)</b>
Net debt at the start of the year	(136,021)	(99,554)
<b>Net debt at the end of the year</b>	<b>(21,107)</b>	<b>(136,021)</b>

**Notes (continued)**

**24 Analysis of cash flows**

	2002 £000	2002 £000	2001 £000	2001 £000
<b>Returns on investment and servicing of finance</b>				
Interest received	134		137	
Interest paid				
Exceptional items (see note 8)	(17,430)		-	
Other	(9,557)		(6,322)	
	<u>(26,987)</u>		<u>(6,322)</u>	
Total interest paid		(26,853)		(6,185)
		<u></u>		<u></u>
<b>Capital expenditure</b>				
Payments to acquire tangible fixed assets	(211)		(509)	
Proceeds from sale of tangible fixed assets	16		17	
	<u>(195)</u>		<u>(492)</u>	
		<u></u>		<u></u>
<b>Acquisitions and disposals</b>				
Investment	(41)		(55)	
Net cash sold with subsidiary	(11)		-	
	<u>(52)</u>		<u>(55)</u>	
		<u></u>		<u></u>
<b>Financing</b>				
Proceeds from issue of ordinary shares	158,506		-	
New loan finance	43,327		29,036	
Repayment of loan finance	(156,129)		(5,572)	
Repurchase of warrants	(174)		-	
	<u>45,530</u>		<u>23,464</u>	
		<u></u>		<u></u>

**25 Analysis of net debt**

	At beginning of year £000	Cash flow £000	Exchange movement £000	At end of year £000
Cash in hand and at bank	2,908	2,417	-	5,325
Debt due within one year	(64,413)	64,413	-	-
Debt due after one year	(74,516)	48,007	77	(26,432)
	<u>(136,021)</u>	<u>114,837</u>	<u>77</u>	<u>(21,107)</u>
<b>Total</b>				

**Notes (continued)**

**26 Sale of business**

Net assets disposed of:	£000
Debtors	288
Cash	11
Creditors	(47)
	<hr/>
	252
Loss on disposal	(252)
	<hr/>
Satisfied by cash	-
	<hr/> <hr/>

**27 Ultimate parent company**

The ultimate parent company is Virgin Group Investments Limited, a company incorporated in the British Virgin Islands.