

VIRGIN AUDIO LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS

28 FEBRUARY 2001

Registered Number: 3937608



VIRGIN AUDIO LIMITED
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28 FEBRUARY 2001

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VIRGIN AUDIO LIMITED

REPORT OF THE DIRECTORS

The directors present their first annual report and audited financial statements for the year ended 28 February 2001. The Company was incorporated on 25 February 2000 and commenced trading on 22 March 2000.

PRINCIPAL ACTIVITY

The principal activity of the Company is that of an investment holding company.
The results for the year are set out on page 4.

RESULTS

The Company made a net loss of £3,942,643 during the year to 28 February 2001, which has been taken to reserves. The directors do not recommend the payment of a dividend for the year.

DIRECTORS AND THEIR INTERESTS

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

F Dearie (appointed 10 March 2000, resigned 12 July 2001)
A J Renouf (appointed 10 March 2000, alternate A L Snell and S C Stevenson)
N M Ritchie (appointed 10 March 2000, alternate F Dearie)
B Collett (appointed 25 February 2000, resigned 10 March 2000)

S C Stevenson as alternate to A J Renouf (appointed 10 October 2000, resigned 12 October 2000, appointed 9 April 2001, resigned 11 April 2001)

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

AUDITORS

On 2 August 2001 the members of the Company passed effective resolutions in accordance with Sections 366A, 252 and 386 of the Companies Act 1985 dispensing with the previous statutory requirement of holding annual general meetings, laying accounts before the Company in general meetings and reappointing auditors annually.

Our auditors KPMG have indicated that their audit practice was transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 31 May 2002 and the directors there upon appointed KPMG LLP to fill the vacancy arising.

By order of the Board



Authentic & Signed

Abacus Secretaries (Jersey) Limited
Joint Company Secretary

La Motte Chambers
St Helier
Jersey
JE1 1BJ
15 August 2002

VIRGIN AUDIO LIMITED**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of its profit or loss for that year. In preparing those accounts, 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 accounts;
- prepare the accounts 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 which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF VIRGIN AUDIO LIMITED**

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

Respective responsibilities of directors and auditors

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

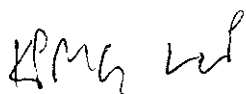
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 28 February 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG LLP
Chartered Accountants
Registered Auditor

8 Salisbury Square
London EC4Y 8BB
5 September 2002

VIRGIN AUDIO LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 28 FEBRUARY 2001

	<u>Notes</u>	Year ended 28 February 2001 £
Administrative Expenses		100,762
OPERATING PROFIT		<u>100,762</u>
Amounts written off investments	7	(41,899)
Amounts written off intercompany advance		(3,895,386)
Interest receivable	4	111
Interest payable	5	<u>(106,231)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2	(3,942,643)
Tax on profit from ordinary activities	6	<u>-</u>
ACCUMULATED LOSS FOR THE YEAR		<u>(3,942,643)</u>

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

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

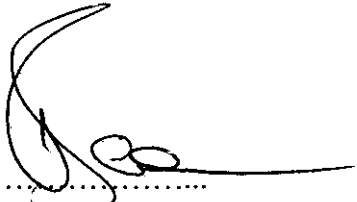
VIRGIN AUDIO LIMITED

BALANCE SHEET AS AT 28 FEBRUARY 2001

	<u>Notes</u>	28 February 2001 £
FIXED ASSETS		
Investments	7	-
CURRENT ASSETS		
Cash at bank		2,790
		<u>2,790</u>
CREDITORS: amounts falling due with one year	8	<u>(2,538,533)</u>
NET CURRENT LIABILITIES		(2,535,743)
NET LIABILITIES		<u>(2,535,743)</u>
CAPITAL AND RESERVES		
Called up share capital	9	2,001
Share premium	10	1,404,899
Profit and loss account	11	(3, 942,643)
EQUITY SHAREHOLDERS' DEFICIT	12	<u>(2,535,743)</u>

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

These financial statements were approved by the Board of Directors on 15 August 2002
and signed on its behalf by:



 F Dearie as
 Alternate Director to N M Ritchie

VIRGIN AUDIO LIMITED
CASHFLOW STATEMENT
FOR THE YEAR ENDED 28 FEBRUARY 2001

	<u>Notes</u>	28 February 2001 £
Cashflow from operating activities	13	(1,362,321)
Returns on investment and servicing of finance	14	111
Taxation		-
Cash outflow before financing		<u>(1,362,210)</u>
Financing	14	1,365,000
Increase in cash in the year		<u><u>2,790</u></u>

Reconciliation of net cashflow to movement in net debt

Increase in cash in the year	2,790
Net debt on incorporation	-
Net funds at 28 February 2001	<u><u>2,790</u></u>

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

VIRGIN AUDIO LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2001****1. ACCOUNTING POLICIES**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The accounts have been prepared under the historical cost accounting rules in accordance with applicable accounting standards, and on a going concern basis in view of the fact that the ultimate parent undertaking, Virgin Group Investments Limited (formerly Virgin Travel Limited) has formally indicated that it will provide sufficient funding to the Company, to enable it to meet its liabilities as they fall due, for at least the next twelve months.

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

The Company is exempt by virtue of S248 of the Companies Act 1985 from the requirement to prepare group accounts on the grounds of size. These financial statements present information about the Company as an individual undertaking and not about its group.

Foreign currencies

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

Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Investments

Investments in subsidiaries are shown at cost less amounts provided for diminution in value

VIRGIN AUDIO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2001**

2. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging/(crediting):

	Year ended 28 February 2001 £
Auditors' remuneration – audit	1,000
Amounts written off investment (see note 7)	41,899
Amounts written off intercompany advances	3,895,386
Foreign exchange gain	<u>(106,823)</u>

3. STAFF COSTS AND DIRECTORS REMUNERATION

The Company did not have any employees other than the directors of the Company. None of the directors received remuneration during the year for the services to the company.

4. INTEREST RECEIVABLE

	Year ended 28 February 2001 £
Bank interest receivable	<u>111</u>

5. INTEREST PAYABLE

	Year ended 28 February 2001 £
Interest payable to group undertakings	<u>106,231</u>

VIRGIN AUDIO LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2001

6. TAXATION

The Company has no charge for corporation tax due to the losses incurred in the year.

7. FIXED ASSET INVESTMENTS

	£
Cost	
Acquisitions	41,899
At 28 February 2001	<u>41,899</u>
Provisions	
Provided in year	(41,899)
At 28 February 2001	<u>(41,899)</u>
Net book value	
At 28 February 2001	<u>-</u>

Investment in subsidiary undertakings:

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

* denotes indirect holdings

VIRGIN AUDIO LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2001

8. CREDITORS: amounts falling due within one year

	2001 £
Amounts owed to related undertakings	2,537,533
Accruals	1,000
	<u>2,538,533</u>

9. CALLED UP SHARE CAPITAL

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

On 25 February 1 ordinary share was issued on the incorporation of the Company and an additional allotment of 1,000 ordinary £1 shares issued at a premium of £1,364,000 was made on 20 March 2000. A further 1,000 ordinary £1 shares were also issued at a premium of £40,899 on 20 March 2000 as consideration for the investment in the subsidiary undertaking.

10. SHARE PREMIUM

	2001 £
Premium created on issue of ordinary shares	1,404,899
As at 28 February 2001	<u>1,404,899</u>

11. PROFIT AND LOSS

	2001 £
Loss for the year	(3,942,643)
Balance at 28 February 2001	<u>(3,942,643)</u>

VIRGIN AUDIO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2001**

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2001
	£
Loss for the financial year	(3,942,643)
Issue of ordinary shares	2,001
Share premium	1,404,899
Closing shareholders' funds	<u>(2,535,743)</u>

13. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASHFLOWS

	2001
	£
Operating profit	100,762
Increase in debtors	(3,895,387)
Increase in creditors	2,539,127
Foreign currency gain	(106,823)
Net cash outflow from operating activities	<u>(1,362,321)</u>

14 ANALYSIS OF CASHFLOWS

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

VIRGIN AUDIO LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2001

15. ANALYSIS OF CHANGES IN NET DEBT

	On incorporation	Cashflow	At 28 February 2001
	£	£	£
Cash at bank	<u>Nil</u>	<u>2,790</u>	<u>2,790</u>

16. MAJOR NON CASH TRANSACTIONS

The Company acquired a 100% interest in its subsidiary undertaking for £41,899, consideration for which was the issue of 1,000 ordinary £1 shares at a total premium of £40,899.

17. RELATED PARTY TRANSACTIONS

At 28 February 2001 the Company's ultimate parent undertaking was Virgin Group Investments Limited (formerly Virgin Travel Limited), whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Investments Limited. The principal beneficiaries of those trusts are Sir Richard Branson and/or his immediate family. The shareholders of Virgin Group Investments Limited have interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard No. 8.

	Subsidiary undertaking	Group undertakings
	£	£
Interest payable	-	106,231
Creditor	-	2,537,533

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

The subsidiary undertaking with whom the Company transacted during the year was Mayfly S.A. During the year the Company advanced to Mayfly S.A. CHF 9,392,850, on interest free terms. This amount has been provided against in full at the closing exchange rate as at 28 February 2001.

18. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking at 28 February 2001 was Virgin Group Investments Limited (formerly Virgin Travel Limited), a Company incorporated in the British Virgin Islands.