

Virgin Audio Limited

**Directors' report and financial
statements**

Registered number 3937608

31 March 2006



Contents

Directors' report	1
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	2
Report of the independent auditors, KPMG LLP, to the members of Virgin Audio Limited	3
Profit and loss account	4
Balance sheet	5
Cash flow statement	6
Notes	7

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2006.

Principal activities

The principal activity of the Company is that of an investment holding company.

Review

The results for the period are set out on page 4 of the financial statements and the loss for the year £95,171 (2005: £195,644) has been transferred to reserves.

Proposed dividend

The directors do not recommend the payment of a dividend (2005: £Nil).

Directors and their interests

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

A J Renouf – resigned 30 June 2006

N M Ritchie – resigned 30 June 2006

F Dearie (as alternate to N M Ritchie, resigned 30 June 2006)

G S Basham (as alternate to A J Renouf, resigned 20 July 2005)

A Tautscher (as alternate to A J Renouf, appointed 20 July 2005 and resigned 30 June 2006)

A Relph (as alternate to A J Renouf, resigned 30 June 2006)

G D McCallum – appointed 30 June 2006

P C K McCall – appointed 30 June 2006

W E Whitehorn – appointed 30 June 2006

None of the directors who held office at the end of the financial period have any disclosable interest in the shares of the Company.

Disclosure of information to auditors

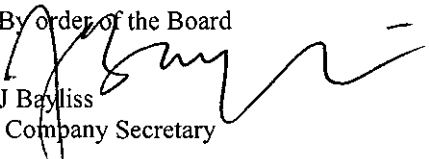
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The members of the Company have passed elective 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.

The last resolution will lead to the continuing appointment of KPMG LLP as auditors of the Company until further notice.

By order of the Board


J Bayliss
Company Secretary

120 Campden Hill Road
London
W8 7AR

30 November 2006

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a 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.

Report of the independent auditors, KPMG LLP, to the members of Virgin Audio Limited

We have audited the financial statements of Virgin Audio Limited for the year ended 31 March 2006 which comprise the primary statements such as the Profit and Loss Account, the Company Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of the company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



KPMG LLP
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

5 December 2006

Profit and loss account
for the year ended 31 March 2006

	<i>Note</i>	Year ended 31 March 2006 £	Year ended 31 March 2005 £
Administrative expenses		9,936	(381,771)
Operating profit/(loss)		9,936	(381,771)
Interest receivable and similar income	3	-	272,930
Interest payable and similar charges	4	(105,107)	(86,803)
Loss on ordinary activities before taxation	2	(95,171)	(195,644)
Tax on loss on ordinary activities	7	-	-
Retained loss for the year	11	(95,171)	(195,644)

There were no recognised gains or losses in 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.

Balance sheet
at 31 March 2006

	<i>Note</i>	31 March 2006 £	31 March 2005 £
Fixed Assets			
Investments	8	-	-
Current assets			
Cash at bank		100	-
		<u>100</u>	<u>-</u>
Creditors: amounts falling due within one year	9	(3,323,581)	(3,228,310)
		<u>(3,323,481)</u>	<u>(3,228,310)</u>
Net current liabilities		(3,323,481)	(3,228,310)
Net liabilities		(3,323,481)	(3,228,310)
Capital and reserves			
Called up share capital	10	2,001	2,001
Share premium account	11	1,404,899	1,404,899
Profit and loss account	11	(4,730,381)	(4,635,210)
		<u>(3,323,481)</u>	<u>(3,228,310)</u>
Equity shareholders' deficit	12	(3,323,481)	(3,228,310)

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

These financial statements were approved by the board of directors on **30 NOVEMBER** 2006
 and were signed on its behalf by:



G D McCallum
 Director

Cash flow statement
for the year ended 31 March 2006

	<i>Note</i>	Year ended 31 March 2006 £	Year ended 31 March 2005 £
Cash inflow/(outflow) from operating activities	13	100	(183)
Taxation		-	-
Increase/(decrease) in cash in the period	14	100	(183)

Reconciliation of net cash flow to movement in net debt
for the year ended 31 March 2006

	Year ended 31 March 2006 £	Year ended 31 March 2005 £
Increase/(decrease) in cash in the period	100	(183)
Change in net debt resulting from cash flows	100	(183)
Reclassification of group debt	-	-
Non cash movements	(98,219)	(86,803)
Foreign exchange	19,789	(88,933)
Movement in net funds in the period	(78,330)	(175,919)
Net funds at the start of the period	(3,121,339)	(2,945,420)
Net funds at the end of the period	14 (3,199,669)	(3,121,339)

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

Notes

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.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below. Their adoption has had no material effect. FRS 28 'Corresponding amounts' imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

Basis of preparation

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

The financial statements have been prepared on a going concern basis in view of the fact that the parent undertaking Virgin Group Investments Limited has formally indicated that it is its present intention to 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 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. 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

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 by 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.

Investments

Investments in subsidiaries are shown at cost less amounts written off.

Notes (continued)

2 Loss on ordinary activities before taxation

	Year ended 31 March 2006 £	Year ended 31 March 2005 £
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Loss on ordinary activities before taxation is stated after charging:

Auditors' remuneration	3,026	2,938
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3 Other interest receivable and similar income

	Year ended 31 March 2006 £	Year ended 31 March 2005 £
Net exchange gains	-	272,930

4 Interest payable and similar charges

	Year ended 31 March 2006 £	Year ended 31 March 2005 £
Net exchange loss	6,888	-
On group loans	98,219	86,803
	<u>105,107</u>	<u>86,803</u>

5 Remuneration of directors

	Year ended 31 March 2006 £	Year ended 31 March 2005 £
Directors' emoluments	<u>75</u>	<u>75</u>

6 Staff costs

The Company did not have any employees other than the directors of the Company for the current year or previous period.

Notes (continued)

7 Taxation

There was no tax charge in the current or prior year due to losses incurred.

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2005: lower) than the standard rate of corporation tax in the UK 30% (2005: 30 %). The differences are explained below.

	Year ended 31 March 2006 £	Year ended 31 March 2005 £
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(95,171)	(195,644)
Current tax at 30% (2005: 30%)	(28,551)	(58,693)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	37,469	161,279
Income not taxable	(13,940)	-
Tax losses not utilised or recognised	5,024	-
Utilisation of brought forward losses	-	(102,586)
Total current tax charge (see above)	-	-

Factors that may affect future tax charges

Details of the Company's total provided and unprovided deferred tax at the period end (and prior period end) are shown in the table in the balance sheet note below.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all the 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 difference can be deducted.

	Year ended 31 March 2006 Provided £	Year ended 31 March 2006 Unprovided £	Year ended 31 March 2005 Provided £	Year ended 31 March 2005 Unprovided £
<i>The deferred tax figures above comprise:</i>				
UK tax losses	-	(161,484)	-	(47,903)
	-	(161,484)	-	(47,903)

Notes (continued)

8 Fixed asset investments

	Investment in subsidiaries £
Cost	
At 31 March 2005 and 31 March 2006	41,899
Provision	
At 31 March 2005 and 31 March 2006	(41,899)
Net book value	
At 31 March 2005 and 31 March 2006	-

The companies in which the Company's interest at 31 March 2006 is more than 20% are as follows:

	Country of Registration	Principal Activity	Holding %	No. of Shares	Type of share
<i>Subsidiary undertakings</i>					
Mayfly SA	Switzerland	Holding Company	99.8%	998	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)	75.9%	70,000,000	Common stock

*denotes indirect holdings

9 Creditors: amounts falling due within one year

	31 March 2006 £	31 March 2005 £
Amounts owed to parent undertakings	117,577	100,382
Amounts owed to group undertakings	3,199,769	3,121,340
Accruals and other creditors	6,235	6,588
	<u>3,323,581</u>	<u>3,228,310</u>

Notes (continued)

10 Called up share capital

	31 March 2006 £	31 March 2005 £
<i>Authorised</i>		
1,000,000 Ordinary shares of £1 each	1,000,000	1,000,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
2,001 Ordinary shares of £1 each	2,001	2,001
	<hr/>	<hr/>

11 Share premium and reserves

	Share premium account £	Profit and loss account £
At beginning of year	1,404,899	(4,635,210)
Retained loss for the year	-	(95,171)
	<hr/>	<hr/>
At end of year	1,404,899	(4,730,381)
	<hr/>	<hr/>

12 Reconciliation of equity shareholders' deficit

	31 March 2006 £	31 March 2005 £
Loss for the financial year	(95,171)	(195,644)
Opening equity shareholders' deficit	(3,228,310)	(3,032,666)
	<hr/>	<hr/>
Closing equity shareholders' deficit	(3,323,481)	(3,228,310)
	<hr/>	<hr/>

13 Reconciliation of operating loss to net cash flow from operating activities

	31 March 2006 £	31 March 2005 £
Operating profit/(loss)	9,936	(381,771)
(Decrease)/Increase in provision	(26,676)	361,863
Increase in creditors	16,840	19,725
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	100	(183)
	<hr/>	<hr/>

Notes (continued)

14 Analysis of net funds

	At beginning of year £	Cash flow £	Reclassification £	Non cash £	Foreign exchange £	At end of year £
Cash at bank	-	100	-	-	-	100
Debt	(3,121,339)	-	-	(98,219)	19,789	(3,199,769)
	<u>(3,121,339)</u>	<u>100</u>	<u>-</u>	<u>(98,219)</u>	<u>19,789</u>	<u>(3,199,669)</u>

15 Related party disclosures

At 31 March 2006 the Company's ultimate parent undertaking was 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 No. 8.

At the year end, the Company had the following amounts outstanding and transactions in the period with related parties:

	Parent undertaking		Related undertakings	
	31 March 2006 £	31 March 2005 £	31 March 2006 £	31 March 2005 £
Creditors	117,577	100,382	3,199,769	3,121,340
Interest payable	-	-	98,219	86,803
Purchases	-	-	8,592	10,208

The related undertakings are Barfair Limited and Virgin Management Limited. The parent undertaking is Virgin Group Investments Limited.

Interest charged on the creditor balance from Barfair Limited which is denominated in Swiss Francs, is 2.25% above the CHF 3 month LIBOR.

All other balances do not attract interest.

16 Ultimate parent company

At 31 March 2006, the Company's ultimate parent undertaking was Virgin Group Investments Limited, a company incorporated in the British Virgin Islands.