Virgin Audio Limited

Directors' report and financial statements

Registered number 3937608

31 March 2008

Contents

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2008.

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 £893,752 (2007 profit: £31,025) has been transferred to reserves.

Proposed dividend

The directors do not recommend the payment of a dividend (2007: £nil).

Directors

The directors of the Company during the period were as follows:
G D McCallum
P C K McCall
W E Whitehorn – resigned 1 October 2007
J Bayliss – appointed 1 October 2007

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

B A R Gerrard
Company Secretary

The School House
50 Brook Green
London
W6 7RR

9th January 2009

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 and applicable law (UK Generally Accepted Accounting Practice).

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 of the company 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 UK 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 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.

Independent auditors' report to the members of Virgin Audio Limited

We have audited the financial statements of Virgin Audio Limited for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Balance Sheet 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

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.

In addition we 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 2008 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

KPMG LLP
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB
16 January 2009

Profit and loss account
for the year ended 31 March 2008

	Note	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Administrative (expenses)/credits *(exceptional item of £(783,160); 2007: gains of £220,984)*	2	**(798,185)**	202,279
Operating (loss)/profit		**(798,185)**	202,279
Interest receivable and similar charges	3	**68,745**	-
Interest payable and similar charges	4	**(164,312)**	(171,254)
(Loss)/profit on ordinary activities before taxation	2	**(893,752)**	31,025
Tax on (loss)/profit on ordinary activities	6	**-**	-
(Loss)/profit for the year		**(893,752)**	31,025

There were no recognised gains or losses in the current or preceding years other than those shown above, which were derived from continuing operations, consequently a statement of total recognised gains and losses has not been presented.

The notes on pages 6 to 11 form part of these financial statements.

Balance sheet
at 31 March 2008

	Note	2008 £	2007 £
Fixed assets			
Investments	7	-	-
Creditors: amounts falling due within one year	8	**(4,186,208)**	(3,292,456)
Net liabilities		**(4,186,208)**	(3,292,456)
Capital and reserves			
Called up share capital	9	**2,001**	2,001
Share premium account	10	**1,404,899**	1,404,899
Profit and loss account	10	**(5,593,108)**	(4,699,356)
Shareholders' deficit	11	**(4,186,208)**	(3,292,456)

The notes on pages 6 to 11 form part of these financial statements.

These financial statements were approved by the board of directors on 9th January 2009 and were signed on its behalf by:

G D McCallum
Director

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. They have been applied consistently throughout the year and the preceding year.

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 Holdings 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.

Under Financial Reporting Standard 1 (revised 1996), the Company is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

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 Financial Reporting Standard 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)/profit on ordinary activities before taxation

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
(Loss)/profit on ordinary activities before taxation is stated after (crediting)/charging:		
Auditors remuneration:		
Audit of these financial statements	**3,720**	3,091
Provision (reversal) against loan with group undertaking arising from foreign exchange movement	**783,160**	(220,984)

3 Interest receivable and similar charges

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Net exchange gain	**68,745**	-
	68,745	-

4 Interest payable and similar charges

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Net exchange loss	**-**	48,011
On group loans	**164,312**	123,243
	164,312	171,254

5 Remuneration of directors

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Directors' emoluments	**-**	75

Notes *(continued)*

6 Taxation

There is no tax charge in the profit and loss account in this or the previous year.

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2007: lower) than the standard rate of corporation tax in the UK 30% (2007: 30 %). The differences are explained below.

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Current tax reconciliation		
(Loss)/profit on ordinary activities before tax	**(893,752)**	31,025
Current tax at 30% (2007: 30%)	**(268,126)**	9,308
Effects of:		
Expenses not deductible for tax purposes	**284,242**	103,268
Income not taxable	**(20,624)**	(118,187)
Tax losses not utilised or not recognised	**4,508**	5,611
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 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.

	2008 Provided £	**2008 Unprovided £**	2007 Provided £	2007 Unprovided £
The deferred tax figures above compromise:				
UK tax losses	**-**	**(160,163)**	-	(167,095)
	-	**(160,163)**	-	(167,095)

During the year, as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2008, deferred tax balances have been remeasured. Deferred tax relating to timing differences expected to reverse after 1 April 2008 is measured at the tax rate of 28% as this is the tax rate that will apply on reversal.

Notes *(continued)*

7 Fixed asset investments

	Investment in subsidiaries £
Cost	
At 31 March 2007	41,899
Additions	1
At 31 March 2008	41,900
Provision	
At 31 March 2007	(41,899)
Impairment at 31 March 2008	(1)
At 31 March 2008	(41,900)
Net book value	
At 31 March 2008	-
At 31 March 2007	-

The companies in which the Company's interest at 31 March 2008 is more than 20% are as follows:

	Country of Registration	Principal Activity	Holding %	No. of Shares	Type of Share
Subsidiary undertakings					
Mayfly SA	Switzerland	In liquidation	99.8%	998	CHF 100 Ordinary shares
Virgin Digital Inc (formerly 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
Virgin Digital LLC*	United States of America	In formation	100%	1	US$0.01 Common Stock
Virgin Digital Luxembourg SARL	Luxembourg	No longer trading	100%	500	Common Stock

*denotes indirect holdings

Notes *(continued)*

8 Creditors: amounts falling due within one year

	2008 £	2007 £
Amounts owed to related undertakings	**4,182,488**	3,289,365
Accruals and other creditors	**3,720**	3,091
	4,186,208	3,292,456

9 Called up share capital

	2008 £	2007 £
Authorised		
1,000,000 "A" Ordinary shares of £1 each	**1,000,000**	1,000,000
Allotted, called up and fully paid		
2,001 "A" Ordinary shares of £1 each	**2,001**	2,001

10 Share premium and reserves

	Share premium account £	**Profit and loss account £**
At beginning of year	**1,404,899**	**(4,699,356)**
Loss for the year	**-**	**(893,752)**
At end of year	**1,404,899**	**(5,593,108)**

11 Reconciliation of shareholders' deficit

	31 March 2008 £	31 March 2007 £
Opening shareholders' deficit	**(3,292,456)**	(3,323,481)
(Loss)/profit for the financial year	**(893,752)**	31,025
Closing shareholders' deficit	**(4,186,208)**	(3,292,456)

Notes (continued)

12 Related party disclosures

At 31 March 2008 the Company's ultimate parent undertaking was Virgin Group Holdings Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Holdings Limited. The principal beneficiaries of those trusts are Sir Richard Branson and/or his immediate family. The shareholders of Virgin Group Holdings 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:

	Related undertakings	
	31 March 2008	31 March 2007
	£	£
Creditors	**4,182,488**	3,289,365
Interest payable	**164,312**	123,243
Purchases	**10,104**	11,205

The related undertakings are Barfair Limited, Virgin Management Limited and 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.

13 Ultimate parent company

At 31 March 2008, the Company's ultimate parent undertaking was Virgin Group Holdings Limited, a company incorporated in the British Virgin Islands.