Virgin Audio Limited

Directors' report and financial statements

Registered number 3937608

31 March 2010

Contents

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2010

Principal activities

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

Review

The results for the year are set out on page 4 of the financial statements and the loss for the year of £259,832 (2009 £1,079,335) has been transferred to reserves

The company has net liabilities However, as detailed in note 1 to the financial statements a 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 this support

Furthermore, as an investment holding company, no significant changes are expected in relation to the Company's income streams or cost base at this present time As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Proposed dividend

The directors do not recommend the payment of a dividend (2009 £nil)

Directors

The directors of the Company during the year were as follows

G D McCallum
P C K McCall
J Bayliss (resigned on 2nd April 2010)

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

Pursuant to Section 487 of the Companies Act 2006 the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the Board

B A R Gerrard
Company Secretary

The School House
50 Brook Green
London
W6 7RR
12 October 2010

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

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 2010 set out on pages 4 to 11 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditors ' 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 explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

H Green (Senior Statutory Auditor),
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

KPMG LLP
15 Canada Square
London
E14 5GL

14 October 2010

Profit and loss account
for the year ended 31 March 2010

	Note	**Year ended 31 March 2010 £**	Year ended 31 March 2009 £
Administrative expenses		**(26,874)**	(14,707)
Operating loss		**(26,874)**	(14,707)
Income from subsidiary undertakings	*3*	**10,815**	-
Interest payable and similar charges	*4*	**(243,773)**	(1,064,628)
Loss on ordinary activities before taxation	*2*	**(259,832)**	(1,079,335)
Tax on loss on ordinary activities	*6*	**-**	-
Loss for the year		**(259,832)**	(1,079,335)

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 2010

	Note	2010 £	2009 £
Fixed assets			
Investments	*7*	**-**	-
Creditors: amounts falling due within one year	*8*	**(5,525,375)**	(5,265,543)
Net liabilities		**(5,525,375)**	(5,265,543)
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*	**(6,932,275)**	(6,672,443)
Shareholders' deficit	*11*	**(5,525,375)**	(5,265,543)

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

These financial statements were approved by the board of directors on 12 October 2010 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

The amendment to Financial Reporting Standard 8 Related Parties Disclosures has been adopted in these financial statements for the first time The amendment has the effect that only wholly-owned subsidiaries are exempt from disclosure of intra-group transactions and there is no longer a disclosure exemption available in parent company's own financial statements

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 from the requirement to prepare group financial statements by virtue of being subject to the small companies regime of the Companies Act 2006 These financial statements present information about the Company as an individual undertaking and not about its group

Under Financial Reporting Standard 1 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 on ordinary activities before taxation

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
Loss on ordinary activities before taxation is stated after charging:		
Auditors remuneration		
Audit of these financial statements	**3,500**	3,500

3 Income from subsidiary undertakings

On 22 March 2010, the Company received CHF 17,245 (£10,815) from its investment, Mayfly SA, being distribution of surplus cash from Mayfly SA upon liquidation

4 Interest payable and similar charges

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
Net exchange loss	**113,899**	859,353
On group loans	**129,874**	205,275
	243,773	1,064,628

5 Remuneration of directors

The directors did not receive any remuneration during the year for services to the Company (2009 £nil)

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 (2009 higher) than the standard rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
Current tax reconciliation		
Loss on ordinary activities before tax	**(259,832)**	(1,079,335)
Current tax at 28% (2009 28%)	**(72,753)**	(302,214)
Effects of		
Expenses not deductible for tax purposes	**71,515**	298,164
Income not taxable	**(3,028)**	-
UK tax losses not utilised or not recognised	**4,266**	4,050
Total current tax charge (see above)	**-**	-

Factors that may affect future tax charges

Details of the Company's total recognised and unrecognised deferred tax at the year end (and prior year 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

	2010 Recognised £	**2010 Unrecognised £**	2009 Recognised £	2009 Unrecognised £
UK tax losses	**-**	**(168,459)**	-	(164,212)
	-	**(168,459)**	-	(164,212)

Notes *(continued)*

7 Fixed asset investments

	Investment in subsidiaries £
Cost	
At beginning of year	41,900
Disposal	(41,899)
At end of year	1
Provision	
At beginning of year	(41,900)
Disposal	41,899
At end of year	(1)
Net book value	
At beginning and end of year	-

During the year, Mayfly SA, Virgin Digital Luxembourg and Virgin Digital LLC, subsidiaries of the company, were dissolved

The companies in which the Company's interest at 31 March 2010 is more than 20% are as follows

	Country of Registration	Principal Activity	Holding %	No. of Shares	Type of Share
Subsidiary undertakings					
Virgin Hotels Inc (formerly Virgin Digital Inc)	United States of America	Holding Company	100%	100	US$0 01 Common Stock
Virgin Audio Holdings LLC*	United States of America	Operates Radio Free Virgin (digital radio)	75 9%	70,000,000	US$ Common Stock

*denotes indirect holdings

Notes *(continued)*

8 Creditors: amounts falling due within one year

	2010 £	2009 £
Amounts owed to related undertakings	**5,521,875**	5,262,043
Accruals and other creditors	**3,500**	3,500
	5,525,375	5,265,543

9 Called up share capital

	2010 £	2009 £
Allotted, called up and fully paid		
2,001 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**	**(6,672,443)**
Loss for the year	**-**	**(259,832)**
At end of year	**1,404,899**	**(6,932,275)**

11 Reconciliation of shareholders' deficit

	31 March 2010 £	31 March 2009 £
Opening shareholders' deficit	**(5,265,543)**	(4,186,208)
Loss for the year	**(259,832)**	(1,079,335)
Closing shareholders' deficit	**(5,525,375)**	(5,265,543)

Notes (continued)

12 Related party disclosures

At 31 March 2010 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 2010	31 March 2009
	£	£
Creditors	**5,521,875**	5,262,042
Interest payable	**129,874**	205,275
Purchases	**11,738**	10,863

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 2010, the Company's ultimate parent undertaking was Virgin Group Holdings Limited, a company incorporated in the British Virgin Islands