

**EXITIUM LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 JANUARY 2001**

**Registered Number: 3939354**



# **EXITIUM LIMITED**

## **DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 JANUARY 2001**

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## EXITIUM LIMITED

### REPORT OF THE DIRECTORS

The directors present their first annual report and audited financial statements for the period ended 31 January 2001. The company was incorporated on 29 February 2000.

#### PRINCIPAL ACTIVITY

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

#### RESULTS

The Company made a loss of £2,677,894 during the period to 31 January 2001, which has been taken to reserves.

The directors do not recommend payment of a dividend for the period.

#### DIRECTORS AND THEIR INTERESTS

The directors of the Company who held office during the period were as follows:

I S Burroughs	(appointed 13 April 2000, resigned 29 October 2001)
B Collett	(appointed 29 February 2000, resigned 13 April 2000)
S Bowker	(appointed 14 May 2001, resigned 30 November 2001)
G McCallum	(appointed 14 May 2001)
S Murphy	(appointed 30 November 2001)

The director who held office at the end of the financial period has no disclosable interests in the shares of the Company.

According to the register of directors' interests, no rights to subscribe for shares in, or debentures of, the Company were granted to any of the directors, or their immediate families, or exercised by them, during the financial period.

#### 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.

Our auditors KPMG have indicated that their audit practice was transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 17 May 2002 and the directors there upon appointed KPMG LLP to fill the vacancy arising.

By order of the Board

P G Gram  
Secretary



120 Campden Hill Road  
London  
W8 7AR  
9 September 2002

**EXITIUM 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 period. 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.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF EXITIUM 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.

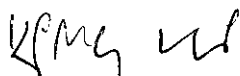
**Basis of audit opinion**

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 31 January 2001 and of its loss for the period from 29 February 2000 (date of incorporation) to 31 January 2001 and have been properly prepared in accordance with the Companies Act 1985.



**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

PO Box 695  
8 Salisbury Square  
London EC4Y 8BB  
12 September 2002

**EXITIUM LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE PERIOD ENDED 31 JANUARY 2001**

	<u>Notes</u>	11 month period ended 31 January 2001 £
Administrative expenses		(1,983,552)
Other income		325,001
<b>OPERATING LOSS</b>	2	<u>(1,658,551)</u>
Amounts written off investment	2/8	(844,106)
Interest payable	5	(188,086)
Interest receivable	6	76,391
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>(2,614,352)</u>
Taxation on profit on ordinary activities	7	(63,542)
<b>ACCUMULATED LOSS FOR THE FINANCIAL PERIOD</b>		<u><u>(2,677,894)</u></u>

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

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

## EXITIUM LIMITED

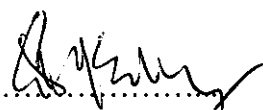
BALANCE SHEET  
AS AT 31 JANUARY 2001

	<u>Notes</u>	<u>31 January 2001 £</u>
<b>CURRENT ASSETS</b>		
Cash at bank and in hand		131,780
<b>CREDITORS: Amounts falling due within one year</b>	9	<u>(74,954)</u>
<b>NET CURRENT ASSETS</b>		56,826
<b>CREDITORS: Amounts falling due after more than one year</b>	10	(1,661,488)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	11	9,912
<b>NET LIABILITIES</b>		<u>(1,594,750)</u>
<b>CAPITAL AND RESERVES</b>		
Called up share capital	12	1,083,144
Profit and loss account	13	<u>(2,677,894)</u>
<b>EQUITY SHAREHOLDERS' DEFICIT</b>	14	<u>(1,594,750)</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  
and signed on its behalf by:

9 September 2002

  
.....  
G McCallum  
Director

**EXITIUM LIMITED**  
**CASHFLOW STATEMENT**  
**FOR PERIOD ENDED 31 JANUARY 2001**

	<u>Notes</u>	11 month period ended 31 January 2001 £
<b>Cash inflow from operating activities</b>	15	69,637
<b>Returns on investment and servicing of finance</b>	16	(176,895)
<b>Taxation</b>		-
<b>Acquisitions and disposals</b>	16	<u>(1,169,107)</u>
Cash outflow before financing		(1,276,365)
<b>Financing</b>	16	1,408,145
<b>Increase in cash in the period</b>		<u><u>131,780</u></u>
 <b>Reconciliation to net debt</b>		
Increase in cash during the period		131,780
Net funds at start of period		-
		<u><u>131,780</u></u>

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



**EXITIUM LIMITED****NOTES TO THE ACCOUNTS  
FOR THE PERIOD ENDED 31 JANUARY 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 shareholders in the Company have formally indicated that they 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 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.

**Taxation**

The charge for taxation is based on the profit for the period 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.

**Foreign Currencies**

Monetary assets and liabilities dominated 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.

## EXITIUM LIMITED

**NOTES TO THE ACCOUNTS  
FOR THE PERIOD ENDED 31 JANUARY 2001**

**2. OPERATING LOSS**

This is stated after charging:

**11 month  
period ended  
31 January  
2001  
£**

Auditors' remuneration – audit  
Provision against debtor

1,500  
1,835,546

**3. DIRECTORS' EMOLUMENTS**

The directors did not receive any remuneration during the period for services to the Company.

**4. STAFF COSTS**

The Company does not have any employees other than the directors of the Company.

**5. INTEREST PAYABLE**

**11 month  
period ended  
31 January  
2001  
£**

Loan interest payable to group undertakings  
On loan notes

105,179  
82,907  
188,086

**6. INTEREST RECEIVABLE**

**11 month  
period ended  
31 January  
2001  
£**

Other interest receivable  
Bank interest

65,200  
11,191  
76,391

**EXITIUM LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE PERIOD ENDED 31 JANUARY 2001**

**7. TAXATION**

	11 month period ended 31 January 2001 £
Charge to corporation tax at 30% - current	73,454
- deferred	(9,912)
	<u>63,542</u>

**8. FIXED ASSET INVESTMENTS**

	2001 £
Cost at beginning of period	-
Acquisitions during the period	7,552,950
Disposals during the period	(6,708,844)
Cost at 31 January 2001	<u>844,106</u>
Provision provided in period	(844,106)
Net book value at 31 January 2001	<u>-</u>

On 19 April 2000, the Company entered into a contract to acquire an investment in Victory Corporation plc for the purchase price of £1,520,866 from a related party, McCarthy Corporation plc ("the Victory Sale Agreement"), and also entered into a contract to acquire an investment in Hemisphere Investments Inc for the purchase price of £5,187,978 from a related party, McCarthy Strategic Holdings Limited ("the Hemisphere Sale Agreement").

On the same date, the Company entered into a contract to sell its entire holding in Victory Corporation plc to another related party, Virgin Retail Holdings Limited ("VRHL"), for the same price. The Victory Sale Agreement and the sale to VRHL completed on 23 May 2000.

On 31 July 2000 and before completion of the Hemisphere Sale Agreement, Convergent Networks Inc purchased the entire share capital of Hemisphere Investments Inc including the shares to be sold by McCarthy Strategic Holdings Limited under the Hemisphere Sale Agreement.

On 21 August 2000 the Hemisphere Sale Agreement was varied such that the Company received £2,573,526 in cash, £1,770,346 in debt due from McCarthy Strategic Holdings Limited and 222,709 ordinary shares in Convergent Networks Inc.

As at 31 January 2001 the directors have fully provided against the investment in Convergent Networks Inc on the grounds of prudence.

## EXITIUM LIMITED

**NOTES TO THE ACCOUNTS  
FOR THE PERIOD ENDED 31 JANUARY 2001**

**8. FIXED ASSET INVESTMENTS** *(continued)*

Trade investment held directly:

	Country of Registration	Principal Activity	Hold ing %	No. of Shares	Type of Share
Convergent Networks Inc.	United States	Broadband networking	2	222,709	Ordinary shares

**9. CREDITORS: amounts falling due within one year**

	2001 £
Corporation tax	73,454
Accruals	1,500
	<u>74,954</u>

**10. CREDITORS: amounts falling after more than one year**

	2001 £
Loan Note C	<u>1,661,488</u>

**11. PROVISIONS FOR LIABILITIES AND CHARGES**

	2001 £
Deferred tax provision	<u>9,912</u>

**12. CALLED UP SHARE CAPITAL**

	2001 £
Authorised 112,500,000 Ordinary shares of £0.01 each	<u>1,125,000</u>
Allotted, called up and fully paid 108,314,397 Ordinary shares of £0.01 each	<u>1,083,144</u>

1 ordinary share was issued at par on the incorporation of the Company on 29 February 2000. Subsequent share issues within the period were 2,499,999 ordinary shares on 19 April 2000 and 105,814,397 ordinary shares on 1 September 2000, both at par.

## EXITIUM LIMITED

## NOTES TO THE ACCOUNTS

## FOR THE PERIOD ENDED 31 JANUARY 2001

## 13. PROFIT AND LOSS RESERVE

	£
On incorporation	-
Loss for the period	(2,677,894)
Balance at 31 January 2001	<u>(2,677,894)</u>

## 14. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	£
On incorporation	-
Loss for the financial period	(2,677,894)
Issue of ordinary shares	1,083,144
Closing shareholders' deficit	<u>(1,594,750)</u>

## 15. RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOWS

	11 month period ended 31 January 2001 £
Operating loss	(1,658,551)
Increase in debtors	65,200
Increase in creditors	1,662,988
Cash inflow from operating activities	<u>69,637</u>

## 16. ANALYSIS CASH FLOWS

	11 month period ended 31 January 2001 £
<b>Returns on investment and servicing of finance</b>	
Interest received	11,191
Interest paid	<u>(188,086)</u>
	<u>(176,895)</u>

## EXITIUM LIMITED

**NOTES TO THE ACCOUNTS  
FOR THE PERIOD ENDED 31 JANUARY 2001**

**16. ANALYSIS CASH FLOWS** *(continued)*

	11 month period ended 31 January 2001 £
<b>Acquisitions and disposals</b>	
Purchase of investment	(6,708,844)
Disposal of investment	5,539,737
	<u>(1,169,107)</u>
	11 month period ended 31 January 2001 £
<b>Financing</b>	
Loan financing	6,708,844
Loans repaid	(6,383,843)
Issue of ordinary share capital	1,083,144
	<u>1,408,145</u>

**17. RELATED PARTY TRANSACTIONS**

At 31 January 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.

During the period, the Company acquired certain investments from related parties and disposed of an investment to a fellow subsidiary company. Details of these transactions are laid out in note 8.

During the period the Company issued loan notes totalling £1,556,309 to its shareholders. The interest rate accruing on the loan notes is 3.25% above base rate and interest payable of £105,179 was incurred in the period. The amounts owing to the loan note holders at 31 January 2001 including accrued interest was £1,661,488.

**18. ULTIMATE PARENT UNDERTAKING**

The ultimate parent undertaking at 31 January 2001 was Virgin Group Investments Limited (formerly Virgin Travel Limited), a company incorporated in the British Virgin Islands.