

**Virgin Enterprises Limited**

**Annual Report and Financial Statements**

Registered number 1073929

31 December 2018



## Contents

	Page
Strategic Report	1
Directors' Report	2
Statement of Directors' Responsibilities	3
Independent Auditor's Report	4-5
Profit and Loss Account and Other Comprehensive Income	6
Balance Sheet	7
Statement of Changes in Equity	8
Notes to the Financial Statements	9-21

**Strategic Report**  
***For the year ended 31 December 2018***

Virgin Enterprises Limited (the "Company") is principally engaged in the management, protection, development and commercial exploitation of the Virgin brand name.

**Summary financial performance and key performance indicators**

For the year ended 31 December 2018 turnover totalled £74.9m, compared with £72.8m for the year ended 31 December 2017. The increase in turnover is attributable to better performance from the Company's existing licensee base. Profit before taxation totalled £50.9m in the year ended 31 December 2018, compared against £53.3m for the year ended 31 December 2017 due to higher administration costs in the current year.

As at 31 December 2018, the Company had net assets of £69.2m (2017: £112.3m), a decrease of 38.3%, following distributions made during the year.

**Development and performance of the business**

The Company's revenues consist of royalties under the trademark licence agreements it has entered into with companies using the Virgin brand ("Licensees"). Royalties receivable under these agreements are usually calculated as a percentage of the revenues of the Licensees, typically subject to minimum guarantees.

**Principal risks and uncertainties**

The Company is reliant on the strong reputation and loyalty engendered by the Virgin brand and is vulnerable to the risk of a decline in the perception of the Virgin brand, and to brand infringement. The Company has a full-time team dedicated to protecting the Virgin brand, monitoring and taking action to prevent potential brand infringement. The Company's trademark licence agreements with Licensees govern the use of its intellectual property and require its Licensees to abide by the quality control standards with respect to such use.

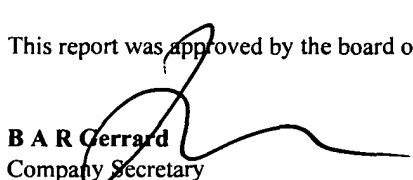
The Company is reliant on royalty income from its trademark licence agreements and any material adverse change in the business or market in which any of the licensees operate or termination of a licence could affect the level of royalty income received. The Company takes steps to mitigate this risk through a wide distribution of Licensees across a number of different geographies and industries, and through setting minimum guaranteed royalty payments in contracts, and through actively monitoring its Licensee relationships.

**Going concern**

The Company has adequate financial resources available to it, and going forward no significant adverse changes are expected in relation to its 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.

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 these financial statements.

This report was approved by the board on 13 June 2019 and signed on its behalf.

  
**B A R Gerrard**  
Company Secretary  
The Battleship Building  
179 Harrow Road  
London  
W2 6NB

**Directors' Report**  
***For the year ended 31 December 2018***

The directors' present their report and the financial statements for the year ended 31 December 2018.

**Results and dividends**

The profit for the year, after taxation, amounted to £41.9m (2017: £43.1m)

During the year the Company declared and settled dividends of £85.0m (2017: £nil).

**Directors**

The directors who served during the year were:

I P Woods  
L V Thomas  
J Bayliss

**Disclosure of information to auditor**

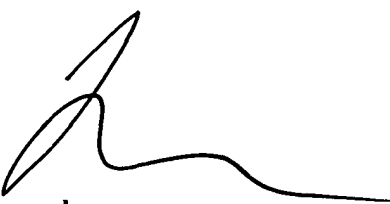
Each of the persons who are directors at the time when the Directors' Report is approved has confirmed that:

- so far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that ought to have been taken as directors in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Auditor**

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.

This report was approved by the board on 13 June 2019 and signed on its behalf.



**B A R Gerrard**  
Company Secretary  
The Battleship Building  
179 Harrow Road  
London  
W2 6NB

**Statement of Directors' Responsibilities in Respect of the Strategic Report, the Directors' Report and the Financial Statements**

The directors are responsible for preparing the Strategic Report, 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), including FRS 101 *Reduced Disclosure Framework*.

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 for that period. In preparing these financial statements, 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 Auditor's Report to the Members of Virgin Enterprises Limited**

### **Opinion**

We have audited the financial statements of Virgin Enterprises Limited (the "Company") for the year ended 31 December 2018, which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with UK ethical requirements, including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Brexit other matter**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.



## **Independent Auditor's Report to the Members of Virgin Enterprises Limited (continued)**

### **Strategic report and directors' report**

The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion, the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; 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.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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 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.

**Stephen Oxley (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL  
13 June 2019

**Profit and Loss Account and Other Comprehensive Income**  
*For the year ended 31 December 2018*

	Note	2018 £000	2017 £000
<b>Turnover</b>	2	74,911	72,831
<b>Gross profit</b>		<u>74,911</u>	<u>72,831</u>
Administrative expenses		(26,516)	(20,524)
Other operating income/(expenses)	3	<u>344</u>	<u>(492)</u>
<b>Operating profit</b>	4	48,739	51,815
Interest receivable and similar income	8	2,129	1,534
<b>Profit before tax</b>		<u>50,868</u>	<u>53,349</u>
Tax on profit	9	(8,958)	(10,252)
<b>Profit for the year</b>		<u><u>41,910</u></u>	<u><u>43,097</u></u>

There were no recognised gains and losses for 2018 and 2017 other than those included in the Profit and Loss Account

The notes on pages 9 to 21 form part of these financial statements.



Registered number: 1073929

**Balance Sheet**  
**As at 31 December 2018**

	Note	£000	2018 £000	2017 £000
<b>Fixed assets</b>				
Intangible assets	10		63,167	66,635
<b>Current assets</b>				
Debtors: amounts falling due after more than one year	11	-	417	
Debtors: amounts falling due within one year	11	50,310	103,284	
Cash at bank and in hand	12	16,441	3,672	
		<u>66,751</u>	<u>107,373</u>	
Creditors: amounts falling due within one year	13	(38,553)	(50,123)	
<b>Net current assets</b>			28,198	57,250
Creditors: amounts falling due after more than one year	14		(22,123)	(11,553)
<b>Net assets</b>			<u>69,242</u>	<u>112,332</u>
<b>Capital and reserves</b>				
Share capital	16		6,365	6,365
Share premium			2,600	2,600
Profit and loss account			<u>60,277</u>	<u>103,367</u>
<b>Shareholders' funds</b>			<u>69,242</u>	<u>112,332</u>

The financial statements were approved and authorised by the board and were signed on its behalf on 13 June 2019.



**I P Woods**  
Director

The notes on pages 9 to 21 form part of these financial statements.

**Statement of Changes in Equity**  
*For the year ended 31 December 2018*

	<b>Called up share capital £000</b>	<b>Share premium account £000</b>	<b>Profit and loss account £000</b>	<b>Total equity £000</b>
Balance at 1 January 2018	6,365	2,600	103,367	112,332
<b>Comprehensive income for the year</b>				
Profit for the year	-	-	41,910	41,910
<b>Total comprehensive income for the year</b>	-	-	41,910	41,910
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	-	-	(85,000)	(85,000)
<b>Total contributions by and distributions to owners</b>	-	-	(85,000)	(85,000)
<b>Balance at 31 December 2018</b>	<b>6,365</b>	<b>2,600</b>	<b>60,277</b>	<b>69,242</b>
Balance at 1 January 2017	6,365	2,600	60,270	69,235
<b>Comprehensive income for the year</b>				
Profit for the year	-	-	43,097	43,097
<b>Total comprehensive income for the year</b>	-	-	43,097	43,097
<b>Balance at 31 December 2017</b>	<b>6,365</b>	<b>2,600</b>	<b>103,367</b>	<b>112,332</b>

The notes on pages 9 to 21 form part of these financial statements.

**1 Accounting policies****1.1 Basis of preparation of financial statements**

Virgin Enterprises Limited (the "Company") is a company incorporated and domiciled in the UK. The Company's registered office address is The Battleship Building, 179 Harrow Road, London, W2 6NB.

The Company's intermediate parent, Virgin UK Holdings Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Virgin UK Holdings Limited are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from the address in note 20.

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") and the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRS'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions under FRS 101 in respect of the following disclosures:

- the requirements of IAS 7 statement of cash flow statement and related notes;
- comparative period reconciliations for share capital and intangible fixed assets;
- the requirements of IAS 24 related party disclosures in respect of wholly owned subsidiaries;
- disclosures in respect of the compensation of Key Management Personnel;
- the requirements of IFRS 7 financial instruments disclosures; and
- the effects of new but not yet effective IFRSs.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

**1.2 Adoption of new and revised standards**

The Company has applied IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' for the first time for its annual reporting period commencing 1 January 2018. Applying these new accounting standards has not had a material impact on the Company's financial statements for the year ended 31 December 2018.

There were no amendments to other accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2018 which have had a material impact on the Company's financial statements. Further details in relation to IFRS 9 and IFRS 15 are noted below:

***IFRS 9 Financial Instruments***

IFRS 9 replaces IAS 39 'Financial Instruments' and the major changes in accounting policies arising from the adoption of IFRS 9 can be summarised as follows:

- The impairment of financial assets has been significantly amended with the main impact being that IFRS 9 introduces an expected credit loss model when assessing the impairment of financial assets.
- The classification of financial instruments from IAS 39 to IFRS 9 categories. This has had no impact on the Company's opening earnings or carrying values of the financial instruments.

The Company has elected to adopt IFRS 9 without restating comparative information.

**1 Accounting policies (continued)****1.2 Adoption of new and revised standards (continued)***IFRS 15 Revenue from Contracts with Customers*

IFRS 15 replaces IAS 18 'Revenue' and introduces a single, principle-based five-step model to be applied to all contracts with customers.

Under IFRS 15, revenue is recognised when customers obtain control of goods or services and so are able to direct the use, and obtain the benefits, of those goods or services. This is described further in the turnover accounting policy below.

**1.3 Going concern**

The Company has adequate financial resources available to it, and going forward no significant adverse changes are expected in relation to its 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.

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 these financial statements.

**1.4 Turnover**

Turnover comprises royalties receivable under trademark licence agreements, which the Company has entered into with companies using the Virgin brand licence. Royalties are typically based on a percentage of the revenues of the Licensee, subject to minimum guarantees, and are recognised in accordance with IFRS 15's principle-based five-step model as follows:

- contract with a customer is identified;
- contract performance obligations are identified;
- transaction price is determined;
- transaction price is allocated to each performance obligation; and
- upon satisfaction of each performance obligation the turnover is recognised.

**1.5 Intangible assets**

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. Individual intangible assets are amortised over a range of 10-27 years.

**1.6 Debtors**

Short term debtors are measured at transaction price less any impairment. Loans receivable are measured initially at fair value, net of transaction cost, and are measured subsequently at amortised cost using the effective interest method, less any impairment in accordance with IFRS 9 Financial Instruments.

**1.7 Creditors**

Creditors are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at the amortised cost using the effective interest method.

**1 Accounting policies (continued)****1.8 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

**1.9 Financial instruments**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument. In accordance with IFRS 9, financial instruments are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Company determines the classification at initial recognition and re-evaluates this designation at each reporting date except for those financial instruments measured at fair value through profit or loss.

***Non-derivative financial assets***

Non-derivative financial assets are deemed to be assets which have no fixed or determinable payments that are not quoted in an active market and would therefore be classified as 'loans and receivables'. Such non-derivative financial assets are measured at amortised cost using the effective interest method, less any impairment and include trade and other receivables. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

***Impairment of non-derivative financial assets***

The Company assesses at each balance sheet date whether a non-derivative financial asset is impaired. The expected credit loss approach is taken when calculating impairments on financial assets. All financial assets are reviewed for historic write-offs and this proportion is applied to its class of financial assets to calculate the required provision.

***Derecognition of non-derivative financial assets***

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

***Non-derivative financial liabilities***

Non-derivative financial liabilities are initially recorded at fair value less directly attributable transaction costs, and subsequently at amortised cost and include loans and borrowings and trade and other payables.

***Derecognition of non-derivative financial liabilities***

The Company derecognises a financial liability only when the Company's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts are recognised in profit or loss.

**1 Accounting policies (continued)****1.10 Foreign currency**

The Company's functional currency is GBP.

Transactions in foreign currencies are translated into the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

**1.11 Dividends**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

**1.12 Employee benefits***Defined contribution pension plan*

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the profit and loss account when they fall due. Amounts not paid are shown in the accruals as a liability in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

*Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

**1.13 Provisions for liabilities**

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made they are charged to the provision carried on the balance sheet.

**1 Accounting policies (continued)****1.14 Finance income and expenses***Interest receivable and interest payable*

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions and net foreign exchange losses that are recognised in profit or loss (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that take a substantial time to be prepared for use are capitalised as part of the cost of that asset.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is included separately above and recognised as part of other operating income. Foreign currency gains and losses are reported on a net basis. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

**1.15 Current and deferred taxation**

Tax on profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised or that the Company has determined it is appropriate to recognise the deferred tax asset as it is recoverable due to the fact that the Company is part of a UK group for group relief purposes.

**1 Accounting policies (continued)****1.16 Impairment of assets***Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than biological assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.



**2 Turnover**

An analysis of turnover by class of business is as follows:

	2018 £000	2017 £000
Royalty fees	74,911	72,831
	<u>74,911</u>	<u>72,831</u>

Analysis of turnover by country of origin:

	2018 £000	2017 £000
United Kingdom	40,069	40,050
European Union (excluding United Kingdom)	1,916	3,039
Europe - Other	3,024	3,329
North America	7,830	7,347
South America	2,178	2,392
Middle East and Africa	3,015	611
Asia	230	2,480
Oceania	16,649	13,583
	<u>74,911</u>	<u>72,831</u>

**3 Other operating income/(expense)**

	2018 £000	2017 £000
Other fee income/(expense)	344	(492)
	<u>344</u>	<u>(492)</u>

During the year ended 31 December 2017, the Company refunded fees in respect of the Letter of Credit to Virgin Group Holdings Limited, in respect to overcharges in prior years.

**4 Operating profit**

Operating profit is stated after charging:

	2018 £000	2017 £000
Amortisation of intangible assets	3,468	4,269
Foreign exchange differences	1,060	350
Costs of defined contribution schemes	<u>312</u>	<u>100</u>

**5 Auditor's remuneration**

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2018	2017
	£000	£000
Fees for the audit of the Company	16	16
	<b>16</b>	<b>16</b>

There were no non-audit services provided.

**6 Staff numbers and costs**

	2018	2017
	£000	£000
Wages and salaries	4,248	2,027
Social security costs	234	377
Costs of defined contribution schemes	312	217
	<b>4,794</b>	<b>2,621</b>

The average monthly number of employees, including the directors, during the year was as follows:

	2018	2017
	No.	No.
Administration and management	27	20

**7 Directors' remuneration**

	2018	2017
	£000	£000
Aggregate emoluments	1,288	1,230
Company contributions to defined contribution pensions schemes	12	10
	<b>1,300</b>	<b>1,240</b>

During the year retirement benefits were accruing to 2 director (2017: 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £1.2m (2017: £1.2m).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £0.01m (2017: £0.01m).

Remuneration for certain directors is paid by other Virgin Group entities.

**8 Interest receivable and similar income**

	2018	2017
	£000	£000
Interest receivable from group companies	1,665	1,373
Net foreign exchange gains	440	115
Other interest receivable	24	46
	<b>2,129</b>	<b>1,534</b>

**9 Taxation**

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Corporation tax</b>		
Current tax on profit for the year	<b>9,341</b>	10,729
Adjustments in respect of prior periods	<b>(188)</b>	(78)
Foreign tax relief/other relief	<b>(1,583)</b>	(1,546)
Foreign tax suffered	<b>1,385</b>	1,140
<b>Total current tax</b>	<b>8,955</b>	10,245
<b>Deferred tax</b>		
Adjustments in respect of previous periods	<b>3</b>	7
<b>Total deferred tax</b>	<b>3</b>	7
<b>Taxation on profit on ordinary activities</b>	<b>8,958</b>	10,252

**Factors affecting tax charge for the year**

The charge for the year can be reconciled to the profit per the profit and loss account as follows:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before tax	<b>50,867</b>	53,349
Tax on profit at standard UK tax rate of 19.00% (2017: 19.25%)	<b>9,665</b>	10,268
Effects of:		
Adjustments in respect of prior years	<b>(186)</b>	(72)
Non-deductible expenses	<b>233</b>	296
Effects of group relief	<b>(619)</b>	-
Effect of foreign tax	<b>(135)</b>	(240)
<b>Total tax charge</b>	<b>8,958</b>	10,252

The standard rate of corporation tax in the UK is 19%, which came into effect from 1 April 2017. Accordingly, the Company's profit for the year is taxed at 19%.

**10 Intangible assets**

	<b>Intellectual property £000</b>
<b>Cost</b>	
At 1 January 2018	94,779
At 31 December 2018	<u>94,779</u>
<b>Amortisation</b>	
At 1 January 2018	28,144
Charge for the year	3,468
At 31 December 2018	<u>31,612</u>
<b>Net book value</b>	
At 31 December 2018	<u>63,167</u>
At 31 December 2017	<u>66,635</u>

**11 Debtors**

	<b>2018 £000</b>	<b>2017 £000</b>
<b>Due after more than one year</b>		
Prepayments and contract assets	-	417
	<u>-</u>	<u>417</u>
<b>Due within one year</b>		
Trade debtors	2,157	5,442
Amounts owed by group undertakings	27,962	76,364
Other debtors	193	77
Prepayments and contract assets	19,924	21,150
Corporation tax	-	174
Deferred taxation	74	77
	<u>50,310</u>	<u>103,284</u>

Prepayments due after more than one year include arrangement fees paid in respect of the revolving credit facility.

**12 Cash and cash equivalents**

	2018	2017
	£000	£000
Cash at bank and in hand	16,441	3,672
	<u>16,441</u>	<u>3,672</u>

**13 Creditors: Amounts falling due within one year**

	2018	2017
	£000	£000
Trade creditors	269	531
Amounts owed to group undertakings	26,219	23,628
Corporation tax	1,197	-
Other creditors	6,079	22,403
Accruals and contract liabilities	4,789	3,561
	<u>38,553</u>	<u>50,123</u>

**14 Creditors: Amounts falling due after more than one year**

	2018	2017
	£000	£000
Contract liabilities	22,123	11,553
	<u>22,123</u>	<u>11,553</u>

Amounts falling due after more than one year relate to prepaid royalties on fixed term licence agreements.

*Financing*

On 5 November 2014, the Company and its parent company VEL Holdings Limited, each as borrower and guarantor, and certain other subsidiaries of Virgin Group Holdings Limited, the Company's ultimate parent undertaking, entered into a multi-currency revolving credit facility of £150 million with Lloyds Bank plc and Barclays Bank plc (the "VELH Facility"). On 31 August 2017, the VELH Facility was reduced to £50 million.

At 31 December 2018, £11 million was drawn down under the VELH Facility (2017: £nil). At 31 December 2018, there were letters of credit drawn under the VELH Facility of £2.5 million (2017: £5.7 million).

On 24 January 2019, the VELH Facility was cancelled.

On 24 January 2019, Virgin Holdings Limited, the Company and its parent company VEL Holdings Limited, as borrowers and guarantors, entered into a new £250 million multi-currency revolving credit facility with Lloyds Bank plc, Barclays Bank plc and Royal Bank of Canada, comprising "RCF A", a one-year £100 million facility, and "RCF B", a three-year £150 million facility. The letters of credit of £2.5 million were transferred to this facility.

RCF A and RCF B are guaranteed by Virgin Holdings Limited, Virgin Enterprises Limited, VEL Holdings Limited, Virgin Group Holdings Limited and Virgin Aviation TM Limited.

**15 Deferred tax assets**

Details of the Company's deferred tax assets at the year end (and prior year end) are shown in the table below.

	2018 £000	2017 £000
Asset at start of year	77	83
Adjustment in respect of prior years	(3)	(6)
	<u>74</u>	<u>77</u>

**16 Share capital**

	2018 £000	2017 £000
<b>Shares classified as equity</b>		
<b>Allotted, called up and fully paid</b>		
6,365,001 ordinary shares of £1 each	<u>6,365</u>	<u>6,365</u>

**17 Dividends**

During the year the Company declared and settled dividends of £85.0m (2017: £nil).

**18 Pension commitments**

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in independently administered funds. The pension cost for the year represents contributions payable by the Company to the scheme and amounted to £312,000 (2017: £100,000).

**19 Related party transactions**

At 31 December 2018, the Company's ultimate parent undertaking was Virgin Group Holdings Limited, whose sole shareholder is Sir Richard Branson. The shareholder of Virgin Group Holdings Limited has interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under International Accounting Standard 24: Related Party Disclosures.

As a 100% owned subsidiary of Virgin Group Holdings Limited, the Company has taken advantage of the exemption under FRS 101: Reduced Disclosure Framework, which enables it to exclude disclosure of transactions with Virgin Group Holdings Limited and its wholly owned subsidiaries.

The Company had the following transactions and outstanding balances with non-wholly owned subsidiaries:

	<i>Royalty revenue</i>	<i>Debtors</i>	<i>Accrued income</i>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>2018</b>			
Virgin Money Holdings (UK) Plc	5,346	-	-
Virgin Rail Group Holdings Limited	2,137	733	842
Other related companies	498	180	97
	<b>7,981</b>	<b>913</b>	<b>939</b>
	<i>Royalty revenue</i>	<i>Debtors</i>	<i>Accrued income</i>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>2017</b>			
Virgin Money Holdings (UK) Plc	6,619	-	573
Virgin Pulse, Inc.	1,179	-	309
Other related companies	3,220	543	337
	<b>11,018</b>	<b>543</b>	<b>1,219</b>

**20 Ultimate parent undertaking and controlling party**

At 31 December 2018, the Company's ultimate parent undertaking was Virgin Group Holdings Limited, a company incorporated in the British Virgin Islands.

The largest and smallest groups into which the Company's results are consolidated are those of Virgin UK Holdings Limited and Virgin Holdings Limited respectively, both companies are registered in England and Wales. The consolidated financial statements of these groups can be obtained from Companies House, Crown Way, Cardiff CF14 3UZ.

**21 Accounting estimates and judgements**

The preparation of the financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from the estimates calculated.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The following accounting policies are considered critical accounting policies as they require a significant amount of management judgement and the results are material to the financial statements.

*Residual value and useful economic lives of assets*

The Company exercises judgement to determine useful lives and residual values of intangible assets. The assets are depreciated to their residual values over their estimated useful lives.