The Virgin Drinks Company Limited

Directors' report and financial statements
for the 14 month period ended 31 March 2004
Registered number - 2952948

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Contents

Directors' report

The directors present their annual report and the audited financial statements for the 14 month period ended 31 March 2004.

Principal activities

The company's principal activity is to trade via its parent company's franchising & licensing model.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend *(2003: £nil)*. The profit for the period of £301,651 *(2003: loss £2,146)* has been transferred to reserves.

Directors and directors' interests

The directors during the period were as follows:

J E Jackson	
A S Lee	
A D Robbins	(resigned 15th February 2003)
J R Cockroft	(appointed 26th February 2004)

None of the directors who held office at the end of the financial year had any disclosable interest in the share capital of the company. None of the directors had a material interest, at any time during the period, in a contract with the company.

Directors' report

Auditors

The members of the company have passed elective resolutions in accordance with Sections 366A, 252 and 286 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

P G Gram
Company secretary

120 Campden Hill Road
London
W8 7AR

1st December 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the results of the company for that period. In preparing those 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 accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Report of the independent auditors, KPMG, to the members of The Virgin Drinks Company Limited

We have audited the financial statements on pages 5 to 12.

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 are responsible for preparing the directors' report and, as described on page 3, 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 March 2004 and of its profit for the 14 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP

Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

15 December 2004

Profit and loss account

for the 14 month period ended 31 March 2004

	Note	**14 months ended 31 March 2004 £**	12 months ended 26 January 2003 £
Turnover – discontinued operations		-	1,047,001
Cost of sales		-	(972,015)
Gross profit		-	74,986
Administrative expenses		**(25,000)**	(118,616)
Gain on customer settlements prior year		**311,744**	-
Other operating income		-	25,041
Operating Profit/(Loss)		**286,744**	(18,589)
Other interest receivable and similar income	5	**14,907**	16,443
Profit/(Loss) on ordinary activities before taxation	*2*	**301,651**	(2,146)
Taxation	*6*	-	-
Profit/(Loss) on ordinary activities after taxation		**301,651**	(2,146)

The company had no recognised gains or losses other than the profit/loss for the period stated above, all of which was derived from discontinued operations.

Balance sheet

at 31 March 2004

	Note	31 March 2004 £	£	26 January 2003 £	£
Fixed assets					
Investments	7		**1**		1
Current assets					
Stocks	8	-		-	
Debtors	9	-		143,241	
Cash at bank and in hand		**387,278**		846,118	
		387,278		989,359	
Creditors: amounts falling due within one year	10	**(12,533,142)**		(13,436,874)	
Net current liabilities			**(12,145,864)**		(12,447,515)
Total assets less current liabilities			**(12,145,863)**		(12,447,514)
Net liabilities			**(12,145,863)**		(12,447,514)
Capital and reserves					
Called up share capital	11		**29,700,000**		29,700,000
Profit and loss account	12		**(41,845,863)**		(42,147,514)
Equity shareholders' deficit	12		**(12,145,863)**		(12,447,514)

These financial statements were approved by the board of directors on 1st December 2004 and were signed on its behalf by:

J E Jackson
Director

Notes

(forming part of the financial statements)

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 except as noted below.

Basis of preparation

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

Under Financial Reporting Standard 1 (revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company and its cash flows in its own published consolidated financial statements.

As 100% of the company's voting rights are controlled within the group headed by Barfair Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Barfair Limited, within which this company is included, can be obtained from Companies House.

Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers. All turnover is derived from the principal activity, and from operations carried out in the United Kingdom.

Notes *(continued)*

2 Profit / (loss) on ordinary activities before taxation

	14 months ended 31 March 2004 £	12 months ended 31 January 2003 £
Profit / (loss) on ordinary activities before taxation is stated after charging:		
Depreciation - owned	-	-
Amounts provided against inter company balances	-	-
Auditors' remuneration:		
Audit	**3,000**	-

3 Remuneration of directors

None of the directors of the company received any remuneration in respect of their services during the period *(2003: £nil).*

4 Staff numbers and costs

The company did not employ any staff in the current & prior periods.

5 Other interest receivable and similar income

	14 months ended 31 March 2004 £	12 months ended 31 January 2003 £
Bank interest receivable	**14,907**	16,443

Notes *(continued)*

6 Taxation

	14 months ended 31 March 2004	12 months ended 26 January 2003
	£	£
UK corporation tax		
Current tax on income for the period	-	-

Factors affecting the tax charge/ (credit) for the current period

The tax charge for the period is lower (31 Jan 2003: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	14 months ended 31 March 2004	12 months ended 26 January 2003
	£	£
Current tax reconciliation		
Profit / (loss) on ordinary activities before tax	**301,651**	(2,147)
Current tax at 30% *(2003: 30%)*	**90,495**	(644)
Effects of:		
Expenses not deductible for tax purposes	-	-
Capital Allowances for period in excess of depreciation	-	6,000
Utilisation of tax losses brought forward	**(90,495)**	(5,356)
Unrelieved tax losses	-	-
Total current tax charge (see above)	-	-

	2004		2003	
	Provided	**Unprovided**	Provided	Unprovided
	£	**£**	£	£
Deferred tax liability/ (asset) arising from tax losses	**0**	**(10,794,367)**	0	(9,607,188)
Other timing differences	**0**	**0**	0	0
Difference between accumulated depreciation & amortisation & capital allowances	**0**	**(360,908)**	0	(563,660)
	0	**(11,155,275)**	0	(10,170,848)

Deferred Taxation

As at 31 March 2004, the company had tax losses available to carry forward of £35,981,223 (31 Jan 2003 £32,023,960) against which no deferred tax asset has been recognised. A 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.

7 Fixed asset investments

The company has an investment of £1 in Virgin Asia Pty Ltd, a company incorporated in Australia. The company holds 2 ordinary shares, which amounts to 50% of the share capital of Virgin Asia Pty Ltd.

8 Stocks

	31 March 2004 £	26 January 2003 £
Finished goods and goods for resale	-	635,509
Provision for obsolete stock	-	(635,509)
	-	-

9 Debtors

	31 March 2004 £	26 January 2003 £
Trade debtors	**506,771**	1,692,968
Trade debtors provision	**(506,771)**	(1,663,852)
Tax and other social security	-	93,842
Other debtors	-	20,283
	-	143,241

10 Creditors: amounts falling due within one year

	31 March 2004 £	26 January 2003 £
Trade creditors	-	75,023
Amounts owed to group undertakings	**11,787,265**	10,777,271
Other creditors	**15,527**	26,291
Accruals	**730,350**	2,558,289
	12,533,142	13,436,874

Notes *(continued)*

11 Called up share capital

	31 March 2004 £	26 January 2003 £
Authorised:		
Equity: 29,700,000 ordinary shares of £1 each	29,700,000	29,700,000
Allotted, called up and fully paid:		
Equity: 29,700,000 ordinary shares of £1 each	29,700,000	29,700,000

12 Reconciliation of equity shareholders' deficit

	Share capital £	Profit and loss account £	Total £
At beginning of period	29,700,000	(42,147,514)	(12,447,514)
Accumulated profit for the period	-	301,651	301,651
At end of period	29,700,000	(41,845,863)	(12,145,863)

13 Contingent liabilities

The company is party to a group sterling overdraft facility of up to £1m, repayable on demand, subject to an unlimited group guarantee and set off arrangement.

Notes *(continued)*

14 Commitments

The company has no operating lease commitments.

15 Related party disclosures

At 31 March 2004 the ultimate parent undertaking of the company was Virgin Group Investments Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Investments Limited. The principal beneficiaries of those trusts are Sir RCN 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.

The following is a summary of those transactions and balances between the group and related parties which are required to be disclosed under Financial Reporting Standard No. 8:

	31 March 2004 Related undertakings	**26 January 2003 Related undertakings**
	£	**£**
Turnover	-	32,048
Debtors	30,225	35,651
Creditors	-	(83,216)

16 Ultimate holding company

At 31 March 2004 the company's ultimate holding company was Virgin Group Investments Limited, a company incorporated in the British Virgin Islands.

The largest group in which the results of the company are consolidated is that headed by Barfair Limited, a company incorporated in England and Wales. The consolidated accounts of this company are available from Companies House, Crown Way, Cardiff, CF14 3UZ.