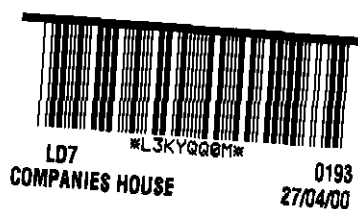


The Virgin Drinks Company Limited
(formerly The Virgin Cola Company Limited)

**Directors' report and financial
statements**

Registered number - 2952948

29 January 1999



Contents

Directors' report	1
Statement of directors' responsibilities	3
Auditors' report to the members of The Virgin Drinks Company Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

Directors' report

The directors present their annual report and the audited financial statements for the year ended 29 January 1999.

Principal activities

The principal activity of the company is the distribution and sale of soft drinks.

Change of name

On 7 March, 2000 the company changed its name from The Virgin Cola Company Limited to The Virgin Drinks Company Limited

Business review

During the year the company continued to expand its distribution base within the grocery multiple sector and incurred some launch costs in the process. In addition the cola category undertook some aggressive promotional activity.

The company reported a loss for the 1999 financial year. However, The Virgin Trading Company Limited demonstrated its commitment to the future of the company in the UK by injecting a further £4m into the company in 1999.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend (1998: *£nil*). The deficit for the year transferred to reserves was £4,431,643, (1998: £7,242,665).

Directors and directors' interests

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 year, in a contract with the company.

Directors and directors' interests

The directors during the year were as follows:

RCN Branson	
MH Berrisford	(resigned 29 October 1999)
PA Steele	
NG Kirkbride	(resigned 6 December 1998)
STM Murphy	(resigned 27 January 1999)
A Cook	(appointed 4 January 2000)

Directors' report

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £nil (1998:£nil)

Year 2000

The Company had an active programme for dealing with issues connected with computer systems and embedded chips in relation to the Year 2000. This involved making identifications and subsequent monitoring of systems and equipment supplied to the Company and testing the results of any modifications.


Compliance reviews of the systems were completed, replaced, modified and retested as appropriate. As a result of the retesting of all the Company's critical business systems, the Company's directors believe that the operations of The Virgin Drinks Company Limited, was not significantly affected by the date change to 1 January 2000. The Company has undertaken a further programme to seek the necessary assurances from key suppliers.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution concerning the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

120 Campden Hill Road
London W8 7AR


P Gram
Secretary

27 April 2000

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the result 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.



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Auditors' report to the members of The Virgin Trading Company Limited

We have audited the financial statements on pages 5 to 11.

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. 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 29 January 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditor

27 April 2000

Profit and loss account

for the year ended 29 January 1999

	Note	1999 £	1998 £
Turnover	1	20,202,739	22,986,923
Cost of sales		(17,471,649)	(20,632,298)
		<hr/>	<hr/>
Gross profit		2,731,090	2,354,625
Administrative expenses		(7,007,182)	(9,473,893)
		<hr/>	<hr/>
Operating loss	2	(4,276,093)	(7,119,268)
Other interest receivable and similar income	5	41,968	51,241
Interest payable and similar charges	6	(197,518)	(174,638)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(4,431,643)	(7,242,665)
Taxation		-	-
		<hr/>	<hr/>
Loss on ordinary activities after taxation		(4,431,643)	(7,242,665)
		<hr/>	<hr/>

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

Balance sheet

at 29 January 1999

	Note	1999	1998
		£	£
Fixed assets			
Intangible assets		-	9,390
Tangible assets	7	1,422,271	1,159,325
		<u>1,422,271</u>	<u>1,168,715</u>
Current assets			
Stocks	9	2,326,884	860,651
Debtors	10	15,584,521	6,518,261
Cash at bank and in hand		401	562
		<u>17,911,806</u>	<u>7,379,474</u>
Creditors: amounts falling due within one year	11	(17,877,639)	(7,078,700)
		<u>34,167</u>	<u>300,774</u>
Net current assets			
		<u>1,456,438</u>	<u>1,469,489</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	12	(738,823)	(320,234)
		<u>717,615</u>	<u>1,149,255</u>
Net assets			
		<u>15,700,000</u>	<u>11,700,000</u>
Capital and reserves	13	(14,982,385)	(10,550,745)
Called up share capital			
Profit and loss account			
Equity shareholders' funds		<u>717,615</u>	<u>1,149,255</u>

These financial statements were approved by the board of directors on 27th April 2000 and were signed on its behalf by:

RCN Branson
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.

Basis of preparation

These financial statements are prepared in accordance with applicable accounting standards and under the historical cost accounting rules, and on a going concern basis in view of the fact that the parent company has indicated they will undertake to provide or procure such support as is necessary to maintain the company as a going concern for the foreseeable future.

The company has taken advantage of the exemption to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of a UK company which prepares and publishes a consolidated cash flow statement.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Plant and equipment - 3-5 years (20% - 33%)

Licences and trademarks acquired by the company are amortised on a straight line basis over five years, or the term of the licence if longer.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate 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.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

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

Turnover

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

Notes (continued)

2 Loss on ordinary activities before taxation

	1999	1998
	£	£
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Depreciation and amortisation	379,829	240,629
Rentals under operating leases on properties	60,373	49,282
Auditors' remuneration:		
Audit	10,000	8,000
	<u> </u>	<u> </u>

3 Remuneration of directors

	1999	1998
	£	£
<i>Directors emoluments</i>	110,400	-
	<u> </u>	<u> </u>

The emoluments above are all paid to the highest paid director. No other director received remuneration from the company. In 1998 the directors services were paid for by the joint venture with Cott Corporation.

4 Staff numbers and costs

	1999	1998
	£	£
Wages and salaries	1,312,692	1,180,153
Social security costs	170,676	132,144
	<u> </u>	<u> </u>
	1,483,368	1,312,297
	<u> </u>	<u> </u>
The number of staff employed during the period were:		
Administration	45	42
	<u> </u>	<u> </u>

5 Other interest receivable and similar income

	1999	1998
	£	£
Interest receivable	41,968	51,241
	<u> </u>	<u> </u>

Notes (continued)

6 Interest payable and similar charges

	1999 £	1998 £
On bank loans	159,327	152,081
Royalty interest - to affiliated companies	38,191	22,557
	<hr/>	<hr/>
	197,518	174,638
	<hr/>	<hr/>

7 Tangible fixed assets

	Plant and machinery £
<i>Cost</i>	
At beginning of year	1,535,719
Additions	642,775
	<hr/>
At end of year	2,178,494
	<hr/>
<i>Depreciation</i>	
At beginning of year	376,394
Charge for year	379,829
	<hr/>
At end of year	756,223
	<hr/>
<i>Net book value</i>	
At 29 January 1999	1,422,271
	<hr/>
At 29 January 1998	1,159,325
	<hr/>

Included within the net book value are assets held under finance leases of £474,373, (1998:£425,004). Depreciation charged on these asset was £126,145, (1998:£50,307).

The intangible asset of £9,390 in 1998 was written off during the year.

Notes (continued)

8 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.

9 Stocks

	1999 £	1998 £
Concentrate	642,644	-
Finished goods and goods for resale	1,789,240	992,101
Provision for obsolete stock	(105,000)	(131,450)
	<hr/> 2,326,884	<hr/> 860,651
	<hr/> <hr/>	<hr/> <hr/>

10 Debtors

	1999 £	1998 £
Trade debtors	6,546,391	4,591,445
Amounts owed by affiliated companies	8,623,526	1,278,371
Other debtors	9,975	396,348
Prepayments	404,629	252,097
	<hr/> 15,584,521	<hr/> 6,518,261
	<hr/> <hr/>	<hr/> <hr/>

11 Creditors: amounts falling due within one year

	1999 £	1998 £
Bank overdraft	3,577,087	707,532
Obligations under finance leases	114,958	78,923
Trade creditors	329,610	397,374
Amounts owed to affiliated companies	1,024,030	90,931
Other creditors including tax and social security	734,185	-
Accruals	12,097,769	5,803,940
	<hr/> 17,877,639	<hr/> 7,078,700
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

12 Creditors: amounts falling due after more than one year

	1999 £	1998 £
Other creditors	350,000	-
Obligations under finance leases	388,823	320,234
	<u>738,823</u>	<u>320,234</u>
	<u><u>738,823</u></u>	<u><u>320,234</u></u>
Obligations under finance leases comprise amounts due:		
Within one year	114,573	78,923
In years 2 to 5 inclusive	274,250	320,234
	<u>388,823</u>	<u>399,157</u>
	<u><u>388,823</u></u>	<u><u>399,157</u></u>

13 Called up share capital

	1999 £	1998 £
Equity:		
Opening share capital - ordinary shares of £1 each	11,700,000	11,700,000
Ordinary shares of £1 each, authorised and issued during the year	4,000,000	-
	<u>15,700,000</u>	<u>11,700,000</u>
Closing share capital	<u><u>15,700,000</u></u>	<u><u>11,700,000</u></u>

14 Commitments

At 29 January 1999 the company had no annual commitments under non-cancellable operating leases.

Notes (continued)

15 Related party transactions

The immediate parent company of The Virgin Drinks Company Limited is The Virgin Trading Company Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in The Virgin Trading Group Limited. The principal beneficiaries of those trusts are RCN Branson and his immediate family.

The shareholders of The Virgin Trading Group 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:

	Related parties	Other affiliates
	£	£
Turnover	5,813	349,385
Debtors	5,465,940	201,323
Creditors	2,295	43,545
	<u> </u>	<u> </u>

The other affiliates with whom the group transacted during the year were Virgin Retail Limited, Virgin Cola (France) Limited, Virgin Cinemas, Virgin Cola Japan, Virgin Euromagnetics Limited, Virgin Hotels Limited, Virgin Radio Limited, Virgin Cola (USA) Limited, Virgin Atlantic Marketing Limited, Virgin Aviation Limited, Virgin Aviation (Hong Kong) Limited.

16 Ultimate holding company

At 29 January 1999 the company's ultimate holding company was The Virgin Trading Group Limited, a company incorporated in England and Wales.