

The Virgin Cola Company Limited

Directors' report and financial statements

28 January 1998

Registered number 2952948



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 28 January 1998.

Principal activities

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

Business review

During the year the company considerably expanded its distribution base within the grocery multiple sector and incurred some launch costs in the process. In addition the cola category saw some aggressive promotional activity during the year, particularly over the Christmas period.

As a consequence of diverging international strategies, in January 1998 one of the joint venture partners, The Virgin Trading Company Limited, bought out all the interest of the Cott Corporation in the company to become the 100% shareholder of the company. At the same time, the company was released from its exclusive production contract with the Cott Corporation. Some costs were incurred by the company in this process.

As a result of all these factors, the company reported a loss for the year. However, The Virgin Trading Company Limited demonstrated its commitment to the future of the company in the UK by injecting a further £9.7m into the company at the time it bought out Cott's interest.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend (1997: *£nil*). The deficit for the year transferred to reserves was £7,242,666 (1997: *profit £116,846*).

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, other than as a result of their interests in shares of the ultimate holding companies of the joint venture shareholders.

Directors' report

Directors and directors' interests

The directors during the year were as follows:

RCN Branson	
TM Abbott	(deceased 9 December 1997)
MH Berrisford	
GN Pencer	(resigned 30 January 1998)
CG Pencer	(resigned 30 January 1998)
DA Nichol	(resigned 30 January 1998)
SEG Lester	(resigned 30 January 1998)
PA Steele	(appointed 30 January 1998)
NG Kirkbride	(appointed 30 January 1998)
STM Murphy	(appointed 30 January 1998)

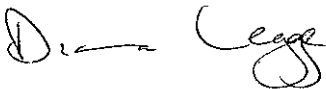
Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £nil (1997:£nil)

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



D Legge
Secretary

17 February 1998

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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Report of the auditors to the members of The Virgin Cola Company Limited

We have audited the financial statements on pages 5 to 15.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 28 January 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants
Registered Auditors

25 February 1998

Profit and loss account

for the year ended 28 January 1998

	<i>Note</i>	1998 £	1997 £
Turnover	1	22,986,923	21,161,554
Cost of sales		(20,632,298)	(17,352,708)
Gross profit		2,354,625	3,808,846
Administrative expenses		(9,473,893)	(4,118,541)
Other operating income	2	-	505,144
Operating (loss)/profit	2	(7,119,268)	195,449
Other interest receivable and similar income	5	51,241	9,516
Interest payable and similar charges	6	(174,638)	(88,119)
(Loss)/profit on ordinary activities before taxation		(7,242,665)	116,846
Taxation		-	-
(Loss)/profit on ordinary activities after taxation		(7,242,665)	116,846

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 28 January 1998

	Note	1998		1997	
		£	£	£	£
Fixed assets					
Intangible assets	7		9,390		143,482
Tangible assets	8		1,159,325		838,291
			<u>1,168,715</u>		<u>981,773</u>
Current assets					
Stocks	10	860,651		429,791	
Debtors	11	6,518,261		3,982,853	
Cash at bank and in hand		562		848,683	
		<u>7,379,474</u>		<u>5,261,327</u>	
Creditors: amounts falling due within one year	12	<u>(7,078,700)</u>		<u>(7,485,534)</u>	
Net current assets/(liabilities)			300,774		(2,224,207)
Total assets less current liabilities			<u>1,469,489</u>		<u>(1,242,434)</u>
Creditors: amounts falling due after more than one year	13		<u>(320,234)</u>		<u>(65,644)</u>
Net assets/(liabilities)			<u>1,149,255</u>		<u>(1,308,078)</u>
Capital and reserves					
Called up share capital	14		11,700,000		2,000,000
Profit and loss account			<u>(10,550,743)</u>		<u>(3,308,078)</u>
Equity shareholders' funds			<u>1,149,255</u>		<u>(1,308,078)</u>

These financial statements were approved by the board of directors on signed on its behalf by:



MH Berrisford
Director

17 January 1999 and were

Cash flow statement

for the year ended 28 January 1998

	Note	1998		1997	
		£	£	£	£
Net cash (outflow)/inflow from operating activities	15	(10,341,572)		1,225,821	
Return on investments and servicing of finance					
Interest received		51,241		9,516	
Interest paid		(174,638)		(39,181)	
		<hr/>		<hr/>	
Net cash outflow from returns on investments and servicing of finance		(123,397)		(29,665)	
Taxation					
Corporation tax paid		-		-	
Investing activities					
Purchase of tangible fixed assets		(220,497)		(801,098)	
Purchase of intangible fixed assets		(1,821)		-	
Sale of tangible fixed assets		-		64,847	
		<hr/>		<hr/>	
Net cash outflow from investing activities		(222,318)		(736,251)	
Net cash (outflow)/inflow before financing		(10,687,287)		459,905	
Financing					
New share capital subscribed		9,700,000		-	
Cash outflow from repayment of finance lease capital		(18,299)		-	
Loan		-		505,144	
		<hr/>		<hr/>	
Net cash inflow from financing		9,681,701		505,144	
(Decrease)/increase in cash and cash equivalents	16	(1,005,586)		965,049	
		<hr/> <hr/>		<hr/> <hr/>	

Notes

(forming part of the financial statements)

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 from preparation of group accounts on the grounds of its size under S249(4) of the Company's Act 1985.

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 Profit/(loss) on ordinary activities before taxation

	1998 £	1997 £
<i>Profit/(loss) on ordinary activities before taxation is stated after charging:</i>		
Depreciation and amortisation	240,629	81,268
Rentals under operating leases on properties	49,282	24,099
Auditors' remuneration:		
Audit	8,000	7,500
	<u> </u>	<u> </u>

Other operating income in 1997 totalling £505,144 reflected indebtedness forgiven by the Cott Corporation (see note 20).

3 Remuneration of directors

None of the directors receive any remuneration from the company (1997: £nil). Their services were paid for by the joint venture shareholders and recovered as appropriate from the company by way of management charges.

4 Staff numbers and costs

	1998 £	1997 £
Wages and salaries	1,180,153	-
Social security costs	132,144	-
	<u> </u>	<u> </u>
	1,312,297	-
	<u> </u>	<u> </u>
The number of staff employed during the period were:		
Administration	42	-
	<u> </u>	<u> </u>

In the year ended 31 January 1997, the company had no employees. It was operated on a day to day basis by certain employees at its joint venture shareholders, the costs of which were recovered in accordance with the joint venture agreement.

5 Other interest receivable and similar income

	1998 £	1997 £
Interest receivable	51,741	9,516
	<u> </u>	<u> </u>

Notes (continued)

6 Interest payable and similar charges

	1998	1997
	£	£
On loans	152,081	47,119
Royalty interest - to affiliated companies	22,557	41,000
	<hr/>	<hr/>
	174,638	88,119
	<hr/> <hr/>	<hr/> <hr/>

7 Intangible fixed assets

	Licences and trademarks £
<i>Cost</i>	
At beginning of year	143,482
Transfer to parent company	(131,942)
Additions	1,821
	<hr/>
At end of year	13,361
	<hr/> <hr/>
<i>Amortisation</i>	
At beginning of year	-
Amortisation	3,971
	<hr/>
At end of year	3,971
	<hr/> <hr/>
<i>Net book value</i>	
At 28 January 1998	9,390
	<hr/> <hr/>
At 28 January 1997	143,482
	<hr/> <hr/>

Notes (continued)

8 Tangible fixed assets

	Plant and machinery £
Cost	
At beginning of year	978,026
Additions	557,693
	<hr/>
At end of year	1,535,719
	<hr/>
Depreciation	
At beginning of year	139,736
Charge for year	236,658
	<hr/>
At end of year	376,394
	<hr/>
Net book value	
At 28 January 1998	1,159,325
	<hr/> <hr/>
At 28 January 1997	838,290
	<hr/> <hr/>

Included within the net book value are assets held under finance leases of £425,004 (1997:£81,297). Depreciation charged on these assets was £50,307 (1997:£2,803).

9 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.

10 Stocks

	1998 £	1997 £
Finished goods and goods for resale	860,651	429,791
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

11 Debtors

	1998 £	1997 £
Trade debtors	4,591,445	1,896,699
Amounts owed by affiliated companies	1,278,371	1,147,352
Other debtors	396,348	314,087
Prepayments	252,097	624,715
	<u>6,518,261</u>	<u>3,982,853</u>

12 Creditors: amounts falling due within one year

	1998 £	1997 £
Bank overdraft	707,532	550,066
Obligations under finance leases	78,923	14,616
Trade creditors	397,374	441,643
Amounts owed to affiliated companies	90,931	3,137,128
Other creditors including tax and social security	-	184,487
Accruals	5,803,940	3,157,593
	<u>7,078,700</u>	<u>7,485,533</u>

13 Creditors: amounts falling due after more than one year

	1998 £	1997 £
Obligations under finance leases	320,234	65,644
	<u>320,234</u>	<u>65,644</u>
Obligations under finance leases comprise amounts due		
Within one year	78,923	14,616
In years 2 to 5 inclusive	320,234	65,644
	<u>399,157</u>	<u>80,260</u>

Notes (continued)

14 Called up share capital

	1998 £	1997 £
<i>Authorised, allotted, called up and fully paid</i>		
Ordinary shares of £1 each	11,700,000	2,000,000
	<u> </u>	<u> </u>

15 Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities

	1998 £	1997 £
Operating (loss)/profit	(7,119,269)	195,449
Depreciation and amortisation charge	240,629	81,268
(Increase)/decrease in stocks	(430,860)	470,679
Increase in debtors	(2,535,408)	(473,054)
Increase/(decrease) in creditors	(496,664)	951,479
	<u> </u>	<u> </u>
Net cash (outflow)/inflow from operating activities	(10,341,572)	1,225,821
	<u> </u>	<u> </u>

16 Reconciliation of net cash flow to movement in net funds

	1998 £	1997 £
(Decrease)/increase in cash	(1,005,586)	965,049
Capital repayment of finance leases	18,299	-
New finance leases	(337,196)	(746,692)
	<u> </u>	<u> </u>
Movement in net funds in year	(1,324,483)	(746,692)
Net debt at 29 January 1997	218,357	-
	<u> </u>	<u> </u>
Net debt at 28 January 1998	(1,106,126)	218,357
	<u> </u>	<u> </u>

Notes (continued)

17 Analysis of net debt

	1997	Cash flow	Other non-cash changes	1998
Cash	848,683	(848,121)	-	562
Bank overdraft	(550,066)	(157,466)	-	(707,532)
Finance leases	(80,260)	18,299	(337,196)	(399,157)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	218,357	(987,288)	(337,196)	(1,106,127)
	<hr/>	<hr/>	<hr/>	<hr/>

18 Joint venture shareholders

During the year, the company was a joint venture between the Virgin Trading Company Limited and the Cott Corporation with each holding 50% of the ordinary share capital of the company.

On 28 January 1998, The Virgin Trading Company Limited acquired all of the share capital held by the Cott Corporation, as a result of which certain matters under dispute relating to the accounting periods to 28 January 1997 were resolved. The adjustments arising from this included the forgiveness of indebtedness due to Cott at 28 January 1997 of £505,144.

19 Commitments

At 29 January 1998 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings £
Operating leases which expire within:	
Two to five years	36,000
	<hr/>

Notes (continued)

20 Related party transactions

At 28 January 1998, the company's joint venture partners were The Virgin Trading Company Limited and BCB International Holdings. The ultimate parent company of The Virgin Trading Company Limited was The Virgin Trading Group 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 ultimate parent company of BCB International Holdings was Cott Corporation. The shareholders of The Virgin Trading Group Limited and Cott Corporation 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:

	Joint venture partners £	Other affiliates £
Turnover	4,876	661,119
Other operating income	-	-
Interest payable	175,138	-
Debtors	221,940	1,056,431
Creditors	-	90,931
	<hr/>	<hr/>

The other affiliates with whom the group transacted during the year were Virgin Atlantic Airways Limited, 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.

21 Ultimate holding company

At 31 January 1998 the company's ultimate holding company was The Virgin Trading Group Limited, a company incorporated in England and Wales.