

The Virgin Drinks Company Limited

**Directors' report and financial
statements**

Registered number - 2952948

31 January 2000



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 January 2000.

Principal activities

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

Review of business

During the year the company continued to expand its distribution base within the grocery multiple sector and on premise sector. In addition, the convenience and impulse sector was also launched. Whilst the cola category has continued to be subject to aggressive price competition, development of new product offerings during the year will ensure a range of higher margin products is marketed in the forthcoming year.

The company reported a loss in the 2000 financial year. However, the Virgin Trading Company demonstrated its commitment to the future of the company in the UK by injecting a further £6m of funding in 2000.

The loss on ordinary activities for the year transferred to reserves was £6,097,260 (1999: £4,431,643).

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

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend (1999: £nil).

Directors and directors' interests

The directors who held office during the year were as follows:

| | |
|---------------|-----------------------------|
| RCN Branson | |
| PA Steele | |
| A Cook | (appointed 18 January 2000) |
| MH Berrisford | (resigned 29 October 1999) |

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.

Political and charitable contributions

The company made no political or charitable contributions during the year (1999: £nil).

Directors' report (*continued*)

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 as auditors of the company until further notice.

By order of the Board



PG Gram
Secretary

120 Campden Hill Road
London
W8 7AR

25 May 2001

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 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.



PO Box 695
8 Salisbury Square
London
EC4Y 8BB

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

We have audited the financial statements on pages 5 to 13.

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 31 January 2000 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

5 June 2001

Profit and loss account

for the year ended 31 January 2000

| | Note | 2000 £ | 1999 £ |
|--|------|--------------------|--------------------|
| Turnover | | 18,317,262 | 20,202,739 |
| Cost of sales | | (14,867,411) | (17,415,627) |
| Gross profit | | 3,449,851 | 2,787,112 |
| Administrative expenses | | (9,687,863) | (7,007,183) |
| Operating loss | 2 | (6,238,012) | (4,220,071) |
| Other interest receivable and similar income | 5 | 423,126 | 41,968 |
| Interest payable and similar charges | 6 | (282,374) | (253,540) |
| Loss on ordinary activities before taxation | | (6,097,260) | (4,431,643) |
| Taxation | 7 | - | - |
| Accumulated loss for the year | 15 | (6,097,260) | (4,431,643) |

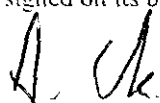
The company had no recognised gains or losses other than the loss for the year stated above, all of which was derived from continuing operations.

Balance sheet

at 31 January 2000

| | Note | 2000 | 1999 |
|--|------|---------------------|---------------------|
| | | £ | £ |
| Fixed assets | | | |
| Tangible assets | 8 | 1,223,605 | 1,422,271 |
| Current assets | | | |
| Stocks | 10 | 1,038,632 | 2,326,884 |
| Debtors | 11 | 17,193,375 | 15,584,521 |
| Cash at bank and in hand | | 511 | 401 |
| | | <u>18,232,518</u> | <u>17,911,806</u> |
| Creditors: amounts falling due within one year | 12 | <u>(18,381,831)</u> | <u>(17,877,639)</u> |
| Net current (liabilities)/assets | | <u>(149,313)</u> | <u>34,167</u> |
| Total assets less current liabilities | | <u>1,074,292</u> | <u>1,456,438</u> |
| Creditors: amounts falling due after more than one year | 13 | <u>(453,937)</u> | <u>(738,823)</u> |
| Net assets | | <u>620,355</u> | <u>717,615</u> |
| Capital and reserves | | | |
| Called up share capital | 14 | 21,700,000 | 15,700,000 |
| Profit and loss account | | <u>(21,079,645)</u> | <u>(14,982,385)</u> |
| Equity shareholders' funds | 15 | <u>620,355</u> | <u>717,615</u> |

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



A Cook
 Director

25 May

2001 and were

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. They have been prepared by the directors on a going concern basis in view of the fact that the ultimate parent undertaking, Virgin Group Investments Limited (formerly Virgin Travel 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 12 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 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%) |
|---------------------|---|-----------------------|

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

| | 2000 £ | 1999 £ |
|--|-----------|-----------|
| <i>Loss on ordinary activities before taxation is stated after charging:</i> | | |
| Depreciation - owned | 340,864 | 253,684 |
| - leased | 132,651 | 126,145 |
| Rentals under operating leases on properties | 97,123 | 60,373 |
| Auditors' remuneration: | | |
| Audit | 9,750 | 10,000 |

3 Remuneration of directors

| | 2000 £ | 1999 £ |
|-----------------------|-----------|-----------|
| Directors' emoluments | - | 110,400 |

The emoluments paid in 1999 were paid to the highest paid director. No other director received remuneration from the company.

4 Staff numbers and costs

The average number of staff employed by the company during the year (including directors) analysed by category were as follows:

| | 2000 No. | 1999 No. |
|----------------|-------------|-------------|
| Administration | 55 | 45 |

The aggregate payroll costs of these persons. (including directors), were as follows:

| | 2000 £ | 1999 £ |
|-----------------------|-----------------|-----------------|
| Wages and salaries | 1,512,983 | 1,312,692 |
| Social security costs | 207,121 | 170,676 |
| | <hr/> 1,720,104 | <hr/> 1,483,368 |

5 Other interest receivable and similar income

| | 2000 £ | 1999 £ |
|------------------------------------|---------------|--------------|
| Receivable from group undertakings | 423,126 | - |
| Other | - | 41,968 |
| | <hr/> 423,126 | <hr/> 41,968 |

Notes (continued)

6 Interest payable and similar charges

| | 2000 £ | 1999 £ |
|--|---------------|---------------|
| On bank overdraft | 238,077 | 159,327 |
| Royalty interest – to related companies | - | 38,191 |
| Finance charges payable in respect of finance leases and hire purchase contracts | 44,297 | 56,022 |
| | <hr/> 282,374 | <hr/> 253,540 |

7 Taxation

There is no charge for taxation in the year. Tax losses are available to relieve against future profits of the group.

8 Tangible fixed assets

| | Plant and Equipment £ |
|-----------------------|-----------------------------|
| <i>Cost</i> | |
| At beginning of year | 2,178,494 |
| Additions | 275,836 |
| Disposals | (39,972) |
| | <hr/> |
| At end of year | 2,414,358 |
| | <hr/> |
| <i>Depreciation</i> | |
| At beginning of year | 756,223 |
| Charge for year | 473,515 |
| Disposals | (38,985) |
| | <hr/> |
| At end of year | 1,190,753 |
| | <hr/> |
| <i>Net book value</i> | |
| At 31 January 2000 | 1,223,605 |
| | <hr/> |
| At 29 January 1999 | 1,422,271 |

Included within the net book value are assets held under finance leases of £341,722 (1999:£474,373). Depreciation charged on these assets during the year was £132,651 (1999:£126,145).

Notes (continued)

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

| | 2000 £ | 1999 £ |
|-------------------------------------|-----------------|-----------------|
| Concentrate | 289,817 | 642,644 |
| Finished goods and goods for resale | 791,815 | 1,789,240 |
| Provision for obsolete stock | (43,000) | (105,000) |
| | <hr/> 1,038,632 | <hr/> 2,326,884 |

11 Debtors

| | 2000 £ | 1999 £ |
|--------------------------------------|------------------|------------------|
| Trade debtors | 3,471,831 | 6,546,391 |
| Amounts owed by parent undertakings | 7,708,940 | |
| Amounts owed by related undertakings | 4,960,999 | 8,623,526 |
| Other debtors | 1,036,080 | 9,975 |
| Prepayments and accrued income | 15,525 | 404,629 |
| | <hr/> 17,193,375 | <hr/> 15,584,521 |

12 Creditors: amounts falling due within one year

| | 2000 £ | 1999 £ |
|---|------------------|------------------|
| Bank overdraft | 3,982,255 | 3,577,087 |
| Obligations under finance leases [note 13] | 128,303 | 114,958 |
| Trade creditors | 436,348 | 329,610 |
| Amounts owed to related undertakings | 6,348,213 | 1,024,030 |
| Other creditors including tax and social security | - | 734,185 |
| Accruals | 7,486,712 | 12,097,769 |
| | <hr/> 18,381,831 | <hr/> 17,877,639 |

The bank overdraft is secured by a fixed and floating charge over the assets of the company.

Notes (continued)

13 Creditors: amounts falling due after more than one year

| | 2000 £ | 1999 £ |
|---|-----------------|-----------------|
| Other creditors | 200,000 | 350,000 |
| Obligations under finance leases | 253,937 | 388,823 |
| | <hr/> 453,937 | <hr/> 738,823 |
| Analysis of debt | | |
| | 2000 £ | 1999 £ |
| <i>Debt can be analysed as follows:</i> | | |
| In one year or less, or on demand | 4,110,558 | 3,692,045 |
| Between one and two years | 114,573 | 114,573 |
| Between two and five years | 139,364 | 274,250 |
| | <hr/> 4,364,495 | <hr/> 4,080,868 |
| The maturity of obligations under finance leases is as follows: | | |
| Within one year | 161,202 | 161,202 |
| In years 2 to 5 inclusive | 277,667 | 438,869 |
| | <hr/> 438,869 | <hr/> 600,071 |
| Less future finance charges | (56,629) | (96,290) |
| | <hr/> 382,240 | <hr/> 503,781 |
| Due within one year | (128,303) | (114,958) |
| | <hr/> 253,937 | <hr/> 388,823 |

14 Called up share capital

| | 2000 £ | 1999 £ |
|---|------------|------------|
| <i>Authorised:</i> | | |
| Equity: 21,700,000 ordinary shares of £1 each | 21,700,000 | 15,700,000 |
| <i>Allotted, called up and fully paid:</i> | | |
| Equity: 21,700,000 ordinary shares of £1 each | 21,700,000 | 15,700,000 |

During the year 6,000,000 ordinary £1 shares were issued at par, fully paid, to raise funds for working capital.

Notes (continued)

15 Reconciliation of shareholders' funds

| | Share capital £ | Profit and Loss account £ | Total £ |
|--------------------------------------|-----------------------|---------------------------------|----------------|
| At beginning of year | 15,700,000 | (14,982,385) | 717,615 |
| Accumulated loss for the year | - | (6,097,260) | (6,097,260) |
| New share capital subscribed in year | 6,000,000 | - | 6,000,000 |
| At end of year | 21,700,000 | (21,079,645) | 620,355 |

16 Contingent liabilities

Following the year end the company entered into an unlimited joint guarantee and bank set off arrangement with fellow group undertakings.

17 Related party disclosures

At 31 January 2000 the ultimate parent undertaking of the company was Virgin Group Investments Limited (formerly Virgin Travel Limited), whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Investments Limited. The principal beneficiaries of those trusts are RCN Branson and 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:

| | Related parties £ | Fellow subsidiaries £ |
|-----------|-------------------------|-----------------------------|
| Turnover | 10,731 | 284,012 |
| Debtors | 4,760,999 | - |
| Creditors | (6,348,213) | - |

The related parties with whom the company transacted during the year were the Virgin Drinks Manufacturing Partnership, Virgin Tribe Orders and Virgin Space Store.

The fellow subsidiaries with whom the company transacted during the year were Virgin Atlantic Airways Limited, Virgin Publishing Limited, Virgin Atlantic Airways (USA) Inc, Virgin Aviation Services Limited, Virgin Express Tax Free Shop Limited and Virgin Cars (UK) Limited.

Notes *(continued)*

18 Ultimate holding company

At 31 January 2000 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. The consolidated accounts of this company are available from Companies House.