

# **The Virgin Cola Company Limited**

## **Directors' report and financial statements**

28 January 1997

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 1997.

### **Principal activities**

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

### **Business review**

Building on the position established in the first year of trading, during this second full year of trading the company recorded some relatively minor distribution gains. However, it did not need to incur the level of start-up costs which were incurred in previous years, and the directors are pleased that it has therefore been possible to report a profit of £116,846 (1996: loss £2,273,845).

During 1997, the company has made significant further distribution gains across the grocery multiple sector.

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. It also demonstrated its commitment to the future of the company in the UK by injecting a further £9.7m of capital into the company at that time.

### **Proposed dividend**

The directors do not recommend the payment of a dividend (1996: £nil).

### **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)

None of the directors who held office at the end of the financial year had any dissoluble 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**

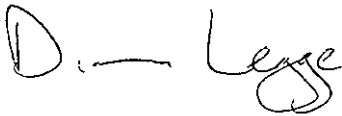
### **Political and charitable contributions**

The company made no political contributions during the year. Donations to UK charities amounted to £nil (1996:£3,775).

### **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

A handwritten signature in dark ink, appearing to read 'D. Legge'.

**D Legge**  
*Secretary*

12 MARCH 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 profit 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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants  
Registered Auditors

1998

## Profit and loss account

*for the year ended 28 January 1997*

	Note	1997 £	1996 £
<b>Turnover</b>	<i>1</i>	21,161,554	19,284,326
Cost of sales		(17,352,708)	(16,238,052)
<b>Gross profit</b>		<u>3,808,846</u>	<u>3,046,274</u>
Administrative expenses		(4,118,541)	(5,248,350)
Other operating income	<i>2</i>	505,144	-
<b>Operating profit/(loss)</b>	<i>2</i>	195,449	(2,202,076)
Other interest receivable and similar income	<i>5</i>	9,516	8,743
Interest payable and similar charges	<i>6</i>	(88,119)	(80,512)
<b>Profit/(loss) on ordinary activities before taxation</b>		<u>116,846</u>	<u>(2,273,845)</u>
Taxation		-	-
<b>Profit/(loss) on ordinary activities after taxation</b>		<u><u>116,846</u></u>	<u><u>(2,273,845)</u></u>

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

## Balance sheet

at 28 January 1997

	Note	1997	1996
		£	£
<b>Fixed assets</b>			
Intangible assets	7	143,482	165,066
Tangible assets	8	838,289	131,047
Investments	9	1	1
		<hr/>	<hr/>
		981,772	296,114
<b>Current assets</b>			
Stocks	10	429,791	930,994
Debtors	11	3,982,853	3,369,923
Cash at bank and in hand		848,683	27,552
		<hr/>	<hr/>
		5,261,327	4,328,469
<b>Creditors: amounts falling due within one year</b>	12	(7,485,533)	(6,049,507)
		<hr/>	<hr/>
<b>Net current (liabilities)</b>		(2,224,206)	(1,721,038)
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		(1,242,434)	(1,424,924)
		<hr/>	<hr/>
<b>Creditors: amounts falling due after more than one year</b>	13	(65,644)	-
		<hr/>	<hr/>
<b>Net (liabilities)</b>		(1,308,078)	(1,424,924)
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	14	2,000,000	2,000,000
Profit and loss account		(3,308,078)	(3,424,924)
		<hr/>	<hr/>
<b>Equity shareholders' funds</b>		(1,308,078)	(1,424,924)
		<hr/>	<hr/>

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

12 MARCH 1998 and were

STM Murphy  
Director



## Cash flow statement

*for the year ended 28 January 1997*

	Note	1997 £	1996 £
Net cash inflow/(outflow) from operating activities	15	1,225,821	(1,109,691)
<b>Return on investments and servicing of finance</b>			
Interest received		9,516	8,743
Interest paid		(39,181)	(11,488)
		<hr/>	<hr/>
Net cash outflow from returns on investments and servicing of finance		(29,665)	(2,745)
<b>Investing activities</b>			
Purchase of tangible fixed assets		(801,098)	(120,021)
Sale of tangible fixed assets		64,847	7,230
Purchase of joint venture company		-	1
		<hr/>	<hr/>
Net cash outflow from investing activities		(736,251)	(112,790)
Net cash inflow/(outflow) before financing		459,905	(1,225,226)
<b>Financing</b>			
Loan		505,144	-
		<hr/>	<hr/>
Net cash inflow from financing		505,144	-
Increase/(decrease) in cash and cash equivalents	16	<u>965,049</u>	<u>(1,225,226)</u>

## **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 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

	1997	1996
	£	£
<i>Profit/(loss) on ordinary activities before taxation is stated after charging:</i>		
Depreciation and amortisation	81,268	56,695
Rentals under operating leases on properties	24,099	-
Auditors' remuneration:		
Audit	7,500	7,500
	<u>          </u>	<u>          </u>

Other operating income totalling £505,144 (1996:£nil) reflects indebtedness forgiven by the Cott Corporation (see note 20).

### 3 Remuneration of directors

None of the directors receive any remuneration from the company (1996:£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

The company has no employees. It is operated on a day to day basis by certain employees of its joint venture shareholders, the costs of which were recovered in accordance with the joint venture agreement.

### 5 Other interest receivable and similar income

	1997	1996
	£	£
Interest receivable	9,516	8,743
	<u>          </u>	<u>          </u>

### 6 Interest payable and similar charges

	1997	1996
	£	£
On loans	47,119	11,488
Royalty interest - to affiliated companies	41,000	69,024
	<u>          </u>	<u>          </u>
	88,119	80,512
	<u>          </u>	<u>          </u>

## Notes (continued)

### 7 Intangible fixed assets

**Licences and  
trademarks**  
£

*Cost*

At beginning of year	206,332
Transfers to joint venture shareholder	(106,842)
Additions	43,992

At end of year	143,482
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*Amortisation*

At beginning of year	41,266
Release of provision	(41,266)

At end of year	-
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*Net book value*

At 28 January 1997	143,482
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At 28 January 1996	165,066
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### 8 Tangible fixed assets

**Plant and  
machinery**  
£

*Cost*

At beginning of year	148,249
Additions	894,623
Disposals	(64,847)

At end of year	978,025
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*Depreciation*

At beginning of year	17,202
Charge for year	122,534

At end of year	139,736
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*Net book value*

At 28 January 1997	838,289
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At 28 January 1996	131,047
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Of the total net book value of £838,289, £81,297 (1996:£nil) relates to assets held under finance leases. Depreciation charged on these assets was £2,803 (1996:£nil).

## Notes (continued)

### 9 Fixed asset investments

	Shares in associated undertakings £
Shares	
<i>Cost</i>	
At beginning of year	1
Additions	-
	<hr/>
At end of year	1
	<hr/> <hr/>

The investment is 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

	1997 £	1996 £
Finished goods and goods for resale	429,791	930,994
	<hr/> <hr/>	<hr/> <hr/>

### 11 Debtors

	1997 £	1996 £
Trade debtors	1,896,699	2,083,754
Amounts owed by affiliated companies	1,147,352	162,159
Other debtors	314,087	211,295
Prepayments	624,715	912,715
	<hr/>	<hr/>
	3,982,853	3,369,923
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 12 Creditors: amounts falling due within one year

	1997 £	1996 £
Bank overdraft	550,066	693,984
Obligations under finance leases	14,616	
Trade creditors	441,643	372,901
Amounts owed to affiliated companies	3,137,128	1,069,971
Other creditors including tax and social security	184,487	-
Accruals	3,157,593	3,912,651
	<u>7,485,533</u>	<u>6,049,507</u>

### 13 Creditors: amounts falling due after more than one year

	1997 £	1996 £
Obligations under finance leases	65,644	-
	<u>65,644</u>	<u>-</u>
Obligations under finance leases comprise amounts due:		£
Within one year		14,616
In years 2 to 5 inclusive		65,644
		<u>80,260</u>

### 14 Called up share capital

	1997 £	1996 £
<i>Authorised, allotted, called up and fully paid</i>		
Ordinary shares of £1 each	2,000,000	2,000,000
	<u>2,000,000</u>	<u>2,000,000</u>

## Notes (continued)

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

	1997 £	1996 £
Operating profit/(loss)	195,449	(2,202,076)
Depreciation and amortisation charge	81,268	56,695
Decrease/(increase) in stocks	470,679	1,212,832
Increase in debtors	(473,054)	(1,241,913)
Increase in creditors	951,479	1,064,771
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	1,225,821	(1,109,691)
	<hr/> <hr/>	<hr/> <hr/>

### 16 Analysis of changes in cash and cash equivalents during the year

	£
Balance at 28 January 1996	(666,432)
Net cash outflow	965,049
	<hr/>
Balance at 28 January 1997	298,617
	<hr/> <hr/>

### 17 Analysis of the balances of cash and cash equivalents as shown in the balance sheet

	Cash £	Overdraft £	Net £
Balance at 28 January 1996	27,552	(693,984)	(666,432)
Net cash inflow	821,131	143,918	965,049
	<hr/>	<hr/>	<hr/>
Balance at 28 January 1997	848,683	(550,066)	298,617
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 18 Reconciliation of movement in shareholders' funds

	£
Opening shareholders' funds	(1,424,924)
Profit for the year	116,846
	<hr/>
Closing shareholders' funds	(1,308,078)
	<hr/>

### 19 Commitments

Capital commitments at the end of the financial year for which no provision has been made are as follows:

	1997	1996
	£	£
Contracted	-	709,778
	<hr/>	<hr/>

At 28 January 1997 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/>

### 20 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 30 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.



## Notes (continued)

### 21 Related party transactions

At 28 January 1997, 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 Virgin Retail (BVI) Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Retail (BVI) 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 Virgin Retail (BVI) 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	-	538,747
Other operating income	505,144	-
Interest payable	41,000	-
Debtors	115,347	1,032,005
Creditors	3,091,343	45,785
	<hr/>	<hr/>

The other affiliates with whom the group transacted during the year were Virgin Atlantic Airways Limited, Virgin Retail Limited and Virgin Cola (France) Limited.