

Barfair Limited

**Directors' report and consolidated
financial statements**

Registered number 3552508

31 January 2002



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 January 2002.

Principal activities

Barfair Limited principally acts as an investment holding company in relation to its subsidiaries and other affiliated companies. The activities of the principal subsidiary companies are detailed in note 11 and principally relate to investment management services, the distribution and sale of drinks and the licensing of the Virgin brand. Other less significant activities of the subsidiaries and associated companies include property development, the operation of nightclubs, the operation of airships and balloons, wholesaling of music products, television production and office printing services.

Results for the year

The results for the year are set out on page 5. The loss for the year has been transferred to reserves.

The directors do not propose payment of a dividend (2001: £nil).

Employees

In considering applications for employment from disabled people in the UK, the group seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant against the requirements of the jobs for which he or she has applied. Employees who become temporarily or permanently disabled are given individual consideration, and where possible equal opportunities for training, career development and promotions are given to disabled persons.

Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the group and are of interest and concern to them as employees. The Group also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them.

Political and charitable contributions

The group made no political contributions during the year. Donations to UK charities amounted to £200,000 (2001: £237,000).

Post balance sheet events

On 6 June 2002, the Group disposed of its entire interests in Virgin Airship and Balloon Company Limited, Voltaplace Limited and The Lightships Group for a total of £1million making an immaterial loss.

On 26 July 2002, the Group converted its holding of 400,000 'A' convertible redeemable preference shares in Sound and Media Limited into 400,000 ordinary 'A' shares of £1 in the company.

On 23 October 2002, the Group disposed of its entire interests in Heaven Limited for a total of £4.2million making a profit on the transaction of £2.0million.

On 31 May 2002, the Group disposed of its entire interests in Virgin Western Limited making a loss on the transaction of £0.5million.

Directors' report *(continued)*

Directors and directors' interests

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

GD McCallum
STM Murphy (appointed 30 November 2001)
WE Whitehorn (appointed 23 January 2002)

The company's ultimate parent company, Virgin Group Investments Limited, is owned by a number of trusts the principal beneficiaries of which are Sir Richard Branson and/or his family. Sir Richard Branson is therefore deemed to have an interest in the share capital of the company.

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of group companies.

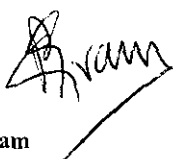
According to the register of directors' interests, no rights to subscribe for shares in or debentures of group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Auditors

The members of the company have passed elective resolutions on 2 July 1999, in accordance with Sections 366A, 252 and 386 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 re-appointing 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


PG Gram
Secretary

120 Campden Hill Road
London
W8 7AR
27th May 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 group and of the profit or loss 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 departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 group and to prevent and detect fraud and other irregularities.

Report of the independent auditors, KPMG LLP, to the members of Barfair Limited

We have audited the financial statements on pages 5 to 29.

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 group 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 group'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 affairs of the company and the group as at 31 January 2002 and of the loss of the group for the year 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

27 May 2004

Consolidated profit and loss account
for the year ended 31 January 2002

	<i>Note</i>	Year ended 31 January 2002 £000	Year ended 31 January 2001 £000
Turnover			
Continuing operations		138,845	98,444
Discontinuing operations		1,552	1,478
		<hr/> 140,397	<hr/> 99,922
Less share of joint ventures' turnover		(20,165)	(12,129)
		<hr/>	<hr/>
	3	120,232	87,793
Cost of sales		(57,205)	(45,288)
		<hr/>	<hr/>
Gross profit		63,027	42,505
Distribution costs		(422)	(394)
Administrative expenses		(166,958)	(118,172)
Other operating income		2,459	1,638
		<hr/>	<hr/>
Group operating loss		(100,194)	(73,163)
Continuing operations		(1,700)	(1,260)
Discontinuing operations		<hr/>	<hr/>
		(101,894)	(74,423)
Share of operating loss of associates		(10,672)	(531)
		<hr/>	<hr/>
Total operating loss	3	(112,566)	(74,954)
Profit on disposal of discontinued operation		7,382	2,320
Loss on disposal of investments		(128)	-
Loss on termination of discontinued business		(3,401)	-
Profit on disposal of fixed assets – continuing operations		1,889	13
Other interest receivable and similar income	6	63,657	49,002
Interest payable and similar charges	7	(55,642)	(41,158)
		<hr/>	<hr/>
Loss on ordinary activities before taxation	2	(98,809)	(64,777)
Tax on loss on ordinary activities	8	(5,480)	725
		<hr/>	<hr/>
Loss on ordinary activities after taxation		(104,289)	(64,052)
Minority interest	20	137	835
		<hr/>	<hr/>
Loss for the financial year		<hr/> <hr/> (104,152)	<hr/> <hr/> (63,217)

The notes on pages 10 to 29 form part of these financial statements.

Consolidated balance sheet
at 31 January 2002

	Note	2002		2001 Restated	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	9		28,455		30,234
Tangible assets	10		26,943		26,058
Investments in associates	11		1,462		1,894
			<hr/>		<hr/>
			56,860		58,186
Current assets					
Stocks	12	4,906		13,668	
Debtors	13	303,101		226,182	
Investments	14	818		818	
Cash at bank and in hand		5,958		7,035	
		<hr/>		<hr/>	
		314,783		247,703	
Creditors: amounts falling due within one year	15	(461,397)		(312,789)	
		<hr/>		<hr/>	
Net current liabilities			(146,614)		(65,086)
			<hr/>		<hr/>
Total assets less current liabilities			(89,754)		(6,900)
Creditors: amounts falling due after more than one year	16		(10,582)		(20)
Net liabilities in associates			(5,770)		-
Provisions for liabilities and charges	17		(4,121)		-
			<hr/>		<hr/>
Net liabilities			(110,227)		(6,920)
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	18		1		1
Share premium	19		175,271		175,271
Other reserves	19		54,313		54,313
Profit and loss account	19		(340,245)		(237,075)
			<hr/>		<hr/>
Equity shareholders' deficit			(110,660)		(7,490)
Minority interests	20		433		570
			<hr/>		<hr/>
	3		(110,227)		(6,920)
			<hr/>		<hr/>

The notes on pages 10 to 29 form part of these financial statements.

These financial statements were approved by the board of directors on *27th May 2002* and were signed on its behalf by:



WE Whitehorn
Director

Company balance sheet
at 31 January 2002

	<i>Note</i>	2002		2001 Restated	
		£000	£000	£000	£000
Fixed assets					
Investments	11		-		-
Current assets					
Debtors	13	280,304		224,681	
Cash at bank and in hand		34,540		22,492	
		<u>314,844</u>		<u>247,173</u>	
Creditors: amounts falling due within one year	15	<u>(423,093)</u>		<u>(276,426)</u>	
Net current liabilities			(108,249)		(29,253)
Net liabilities			<u>(108,249)</u>		<u>(29,253)</u>
Capital and reserves					
Called up share capital	18		1		1
Share premium	19		175,271		175,271
Profit and loss account	19		<u>(283,521)</u>		<u>(204,525)</u>
Equity shareholders' deficit			<u>(108,249)</u>		<u>(29,253)</u>

The notes on pages 10 to 29 form part of these financial statements.

These financial statements were approved by the board of directors on 27th May 2002 and were signed on its behalf by:


WE Whitehorn
Director

Consolidated cash flow statement
for the year ended 31 January 2002

	<i>Notes</i>	2002	2001
		£000	Restated £000
Cash outflow from operating activities	24	(14,182)	(31,037)
Returns on investments and servicing of finance	25	(3,636)	510
Taxation	25	(2,016)	(1,316)
Capital expenditure and financial investment	25	(1,538)	(2,406)
		<hr/>	<hr/>
Acquisitions and disposals	25	(21,372) 150	(34,249) -
		<hr/>	<hr/>
Cash outflow before financing		(21,222)	(34,249)
Financing	25	22,852	19,173
		<hr/>	<hr/>
Increase/(decrease) in cash in the period		1,630	(15,076)
		<hr/>	<hr/>

Reconciliation of net cash flow to movement in net debt
for the year ended 31 January 2002

	2002	2001
	£000	Restated £000
Increase/(decrease) in cash in the year	1,630	(15,076)
Cash outflow from decrease in debt and lease financing	(22,852)	(19,173)
	<hr/>	<hr/>
Change in net debt resulting from cash flows	(21,222)	(34,249)
	<hr/>	<hr/>
Movement in net debt in the year	(21,222)	(34,249)
Net debt at the start of the year	(46,329)	(12,080)
	<hr/>	<hr/>
Net debt at the end of the year	(67,551)	(46,329)
	<hr/>	<hr/>

The notes on pages 10 to 29 form part of these financial statements.

Consolidated statement of total recognised gains and losses
for the year ended 31 January 2002

	Group 2002 £000	Group 2001 £000
Loss for the financial year		
Group	(93,480)	(62,686)
Joint venture	(10,672)	(531)
	<hr/>	<hr/>
Currency translation differences on net foreign currency investments	(104,152)	(63,217)
	982	(1,615)
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	(103,170)	(64,832)
	<hr/>	<hr/>
Prior year adjustment	(592)	-
	<hr/>	<hr/>
	<u>(103,762)</u>	<u>(64,832)</u>

Reconciliation of movements in equity shareholders' deficit
for the year ended 31 January 2002

	Group 2002 £000	Company 2002 £000	Group 2001 Restated £000	Company 2001 Restated £000
Total recognised gains and losses relating to the year	(103,170)	(78,996)	(64,832)	(81,093)
	<hr/>	<hr/>	<hr/>	<hr/>
Opening equity shareholders' deficit (Originally for the Group/Company £57,934,000/£50,968,000 before deducting/adding the prior year adjustment of £592,000/£872,000 respectively)	(7,490)	(29,253)	57,342	51,840
	<hr/>	<hr/>	<hr/>	<hr/>
Closing equity shareholders' deficit	(110,660)	(108,249)	(7,490)	(29,253)
	<u><hr/></u>	<u><hr/></u>	<u><hr/></u>	<u><hr/></u>

The Group has fully adopted the FRS 19, which requires full rather than partial provisions for deferred tax liabilities. This has resulted in a change in accounting policy for the Group. Under SSAP15 the Group had unprovided deferred tax liabilities that have now been recognised on the balance sheet and a corresponding prior year adjustment has been made to reflect this. The comparative primary statements and notes have been restated to reflect this adoption. The additional disclosure requirements of FRS 19 are included in note 8 to the financial statements.

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 group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

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..

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 January 2002. On 30 June 1998 Virgin Travel Investments Limited went into a members' voluntary winding up, pursuant to which certain subsidiaries were transferred to the company. This reconstruction has been accounted for using merger accounting principles, although it does not meet all the conditions of the Companies Act 1985 for merger accounting. The reconstruction did not alter the relative rights of the ultimate shareholders of the company's subsidiaries and hence it is considered inappropriate to account for the transaction using acquisition accounting principles, which would have been the required treatment if the Companies Act had not been overridden. The effect of applying acquisition accounting has not been quantified, as it is not considered practical to obtain all the valuations that would be necessary to make such quantifications.

For all other subsidiaries the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the group has a long-term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the group has a long-term interest and over which it exercises joint control. The group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. The directors consider each acquisition separately for the purposes of determining the appropriate amortisation period. All goodwill is currently amortised over 20 years.

On the subsequent disposal or termination of a business the profit or loss on disposal or termination is calculated after charging (crediting) the unamortised amount of any related goodwill (negative goodwill).

In the company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off.

Current asset investments

Current asset investments represent the group's investment in a wholly owned subsidiary that is in the process of being liquidated and has therefore not been consolidated in these financial statements. This investment is stated at the lower of net book value and net realisable value.

Notes (continued)

Accounting policies (continued)

Tangible fixed assets and depreciation

Depreciation is provided 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:

Freehold buildings	-	50 years
Leasehold land and buildings	-	life of lease
Plant and machinery	-	3 to 5 years
Fixture and fittings	-	4 to 10 years
Motor vehicles	-	3 to 4 years

No depreciation is provided on freehold land.

Stocks

Development properties and other stocks are valued at the lower of cost and net realisable value.

Interest on loans to finance the costs of properties in the course of development is added to the cost of the relevant project with the exception of instances where it would result in cost exceeding net realisable value.

Progress payments received or receivable, where in excess of recorded turnover, are deducted and, to the extent that such payments exceed the value of work in progress on any contract, the excess is included in current liabilities. The amount, if any, by which recorded turnover on long-term contracts is in excess of payments on account is classified as "amounts recoverable on contracts" and is separately disclosed within debtors.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. 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.

The assets and liabilities and profit and loss accounts of overseas subsidiary undertakings and associated undertakings are translated at the closing exchange rates. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account as incurred.

Post retirement benefits

The group operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged against profits represent the contributions payable to the schemes in respect of the accounting period.

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 third party customers.

Notes (continued)

2 Loss on ordinary activities before taxation

	Year ended 31 January 2002 £000	Year ended 31 January 2001 £000
<i>Loss on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration:		
Group - audit	342	245
- fees paid to the auditors and its associates in respect of other services	1,981	221
Company - audit	117	25
Depreciation and other amounts written off tangible fixed assets:		
Owned	2,954	2,625
Leased	-	24
Amortisation of intangible fixed assets	1,685	1,688
Net impairment against investments	(797)	4,205
Provision against amounts due from related group undertakings	68,426	29,515
Hire of plant and machinery – rentals payable under operating leases	65	43
Hire of other assets – operating leases	3,286	1,185
Loss on disposal	6	-
<i>after crediting</i>		
Rent receivable	922	615

3 Analysis of turnover, loss on ordinary activities before interest and taxation and net assets

Turnover, loss on ordinary activities before interest and taxation and net assets are analysed below:

<i>By activity</i>	Turnover 2002 £000	Group operating (loss)/profit 2002 £000	Turnover 2001 £000	Group operating (loss)/profit 2001 £000
Continuing				
Wholesale and retail	49,384	(15,914)	45,808	(30,190)
Property	18,037	2,145	4,754	96
Clubs and hotels	9,310	232	8,344	(328)
Merchandising and event management	13,227	(1,846)	13,478	38
Trademark licensing	31,460	28,735	3,037	2,497
Balloons and airships	1,368	4,301	12,305	643
Management services and other	16,059	(128,519)	10,718	(46,450)
Discontinued				
Management services and other	1,552	(1,700)	1,478	(1,260)
	140,397	(112,566)	99,922	(74,954)
Less share of joint ventures' revenue/operating (loss)/profit	(20,165)	10,672	(12,129)	531
	120,232	(101,894)	87,793	(74,423)

Management services and other includes provisions against amounts due from related parties and a charge for the impairment of goodwill as described in note 1 above.

Notes (continued)

3 Analysis of turnover, loss on ordinary activities before interest and taxation and net assets (continued)

Net liabilities

	2002	2001
	£000	Restated £000
Continuing		
Wholesale and retail	(7,911)	(8,906)
Property	1,616	9,916
Clubs and Hotels	6,555	13,630
Merchandising and event management	(715)	(395)
Trademark licensing	(19,112)	(4,754)
Balloons and airships	(1,452)	5,563
Management services and other	(89,208)	(17,166)
Discontinued		
Management services and other	-	(4,808)
	<u>(110,227)</u>	<u>(6,920)</u>

By geographical market

	Turnover 2002 £000	Group operating (loss)/profit 2002 £000	Turnover 2001 £000	Group operating (loss)/profit 2001 £000
UK and Ireland	123,450	(68,234)	70,267	24,803
Rest of Europe	9,145	(13,846)	13,181	(6,021)
Rest of World	7,802	(30,486)	16,474	(93,736)
	<u>140,397</u>	<u>(112,566)</u>	<u>99,922</u>	<u>(74,954)</u>
Less share of joint ventures' revenue/operating (loss)/profit	(20,165)	10,672	(12,129)	531
	<u>120,232</u>	<u>(101,894)</u>	<u>87,793</u>	<u>(74,423)</u>

Net liabilities

	2002	2001
	£000	Restated £000
UK and Ireland	(105,520)	11,636
Rest of Europe	1,064	(4,859)
Rest of World	(5,771)	(13,697)
	<u>(110,227)</u>	<u>(6,920)</u>

Notes (continued)

4 Remuneration of directors

	Year ended 31 January 2002 £000	Year ended 31 January 2001 £000
Group		
Directors' emoluments	850	1,596
Company contributions to money purchase pension schemes	41	25
	<hr/> 891	<hr/> 1,621
	<hr/> <hr/>	<hr/> <hr/>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £453,000 (2001: £1,237,500). No company pension contributions were made on his behalf.

	Number of directors 2002	2001
Group		
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2
	<hr/>	<hr/>

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees 2002	2001
Management and administration	328	311
Selling and distribution	131	111
Operations and other	86	93
	<hr/> 545	<hr/> 515
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 January 2002 £000	Year ended 31 January 2001 £000
Wages and salaries	17,648	16,530
Social security costs	1,348	1,377
Other pension costs	320	355
	<hr/> 19,316	<hr/> 18,262
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

6 Other interest receivable and similar income

	Year ended 31 January 2002 £000	Year ended 31 January 2001 £000
Bank interest	3,308	3,327
Other interest	172	95
Foreign exchange gains	-	1,041
Interest receivable from related parties	60,177	44,539
	<hr/> 63,657 <hr/>	<hr/> 49,002 <hr/>

7 Interest payable and similar charges

	Year ended 31 January 2002 £000	Year ended 31 January 2001 £000
On bank loans and overdrafts	6,961	2,755
Other interest	-	129
Finance charges payable in respect of finance leases and hire purchase contracts	-	28
Foreign exchange losses	-	1,687
Interest payable to related parties	48,681	36,559
	<hr/> 55,642 <hr/>	<hr/> 41,158 <hr/>

8 Taxation

Analysis of charge in period

	Year ended 31 January 2002 £000	Year ended 31 January 2001 £000
<i>UK corporation tax</i>		
Current tax on income for the period	5,268	-
Overseas tax	65	-
Associated companies	2	(6)
Adjustments in respect of prior periods	(505)	156
	<hr/> 4,830 <hr/>	<hr/> 150 <hr/>
Total current tax	4,830	150
Deferred tax	650	(875)
	<hr/> 5,480 <hr/>	<hr/> (725) <hr/>
Tax charge/(credit) on profit on ordinary activities	5,480	(725)

Notes (continued)

8 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2001: higher) than the standard rate of corporation tax in the UK 30% (2001: 30%). The differences are explained below.

	Year ended 31 January 2002 £000	Year ended 31 January 2001 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(98,809)	(64,777)
Current tax at 30% (2001: 30%)	(29,643)	(19,433)
<i>Effects of:</i>		
Capital allowances for period in excess of depreciation	156	161
Other short term timing differences	551	1,627
Unrelieved overseas tax losses	2,206	4,943
Utilisation of tax losses brought forward	(385)	(552)
Unrelieved tax losses	-	2,302
Adjustment in respect of prior years	(505)	156
Expenses not deductible for tax purposes	32,450	10,946
Total current tax charge (see above)	4,830	150

Factors that may affect future tax losses

As at 31 January 2002, the group had tax losses and other timing differences available to carry forward of approximately £100m 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.

Notes (continued)

9 Intangible fixed assets

Group	Goodwill £000	Other assets £000	Total £000
Cost			
At 1 February 2001	60,232	93	60,325
Reclassification	(5)	5	-
Exchange loss	-	(4)	(4)
Disposals	-	(90)	(90)
At 31 January 2002	60,227	4	60,231
Amortisation and impairments			
At 1 February 2001	30,089	2	30,091
Charged in year	1,685	-	1,685
At 31 January 2002	31,774	2	31,776
Net book value			
At 31 January 2002	28,453	2	28,455
At 1 February 2001	30,143	91	30,234

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. Following a review of the useful economic life of the goodwill associated with the acquisition of Voyager Investments (BVI) Limited and The Virgin Trading Group Limited, the directors consider an amortisation period of 20 years appropriate.

Notes (continued)

10 Tangible fixed assets

Group	Land and Buildings £000	Plant and equipment £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
<i>Cost or valuation</i>					
At 1 February 2001	19,463	7,330	11,546	48	38,387
Additions	5,569	694	1,259	373	7,895
Disposals	(3,415)	(1,209)	(3,305)	(48)	(7,977)
Assets of disposed subsidiaries	-	-	(75)	-	(75)
Exchange differences	433	84	(235)	-	282
At 31 January 2002	22,050	6,899	9,190	373	38,512
<i>Depreciation</i>					
At 1 February 2001	2,441	5,342	4,535	11	12,329
Charge for year	569	676	1,395	314	2,954
On disposals	(904)	(1,203)	(1,512)	(15)	(3,634)
Assets of disposed subsidiaries	-	-	(40)	-	(40)
Exchange differences	12	58	(110)	-	(40)
At 31 January 2002	2,118	4,873	4,268	310	11,569
<i>Net book value</i>					
At 31 January 2002	19,932	2,026	4,922	63	26,943
At 31 January 2001	17,022	1,988	7,011	37	26,058

The following fixed asset categories include assets held under finance lease and hire purchase contracts:

	2002 £000	2001 £000
Net book value		
Plant and equipment	-	-
Depreciation charged in the year		
Plant and equipment	-	24

The split between freehold and leasehold land and buildings is shown below:

	2002 £000	2001 £000
Net Book Value		
Freehold land and building	13,909	14,956
Leasehold land and buildings	6,023	2,066
	19,932	17,022
Depreciation charged in the year		
Freehold land and building	216	181
Leasehold land and buildings	353	277
	569	458

Notes (continued)

11 Fixed asset investments

Group	Net liabilities in associated undertakings £000	Interests in associated undertakings £000	Other unlisted investments £000	Total investments £000
<i>Cost</i>				
At 1 February 2001	-	8,460	844	9,304
Exchange differences	-	-	-	-
Additions	4,084	-	-	4,084
Disposals	-	(89)	-	(89)
At 31 January 2002	4,084	8,371	844	13,299
<i>Share of post acquisition reserves</i>				
Balance at 1 February 2001	-	341	-	341
Disposal	-	(269)	-	(269)
Exchange differences	-	-	-	-
Retained loss for the year	(9,854)	(818)	-	(10,672)
Tax	-	(2)	-	(2)
Dividends received	-	-	-	-
Amortisation of premium on acquisition	-	(50)	-	(50)
At 31 January 2002	(9,854)	(798)	-	(10,652)
<i>Impairments</i>				
Balance at 1 February 2001	-	(6,907)	(844)	(7,751)
Charged in the year	-	(75)	-	(75)
Provision released during the year	-	871	-	871
At 31 January 2002	-	(6,111)	(844)	(6,955)
<i>Net book value</i>				
At 31 January 2002	(5,770)	1,462	-	(4,308)
At 31 January 2001	-	1,894	-	1,894

Company	Shares in group undertaking £000
<i>Cost</i>	
At 1 February 2001 and 31 January 2002	269
<i>Provisions</i>	
At 1 February 2001 and 31 January 2002	(269)
<i>Net book value</i>	
At 1 February 2001 and 31 January 2002	-

Notes (continued)

11 Fixed asset investments (continued)

The principal undertakings in which the group's interest at the year end is more than 20% are as follows:

	Country of Registration	Principal Activity	Holding %	Type of share
<i>Subsidiary undertakings</i>				
Vanson Developments Limited*	England & Wales	Property developer	100%	Ordinary £1 shares
The Virgin Trading Group Limited*	England & Wales	Holding company	100%	Ordinary £1 shares
The Virgin Drinks Company Limited	England & Wales	Wholesaler of Drinks	100%	Ordinary £1 shares
Virgin Management Limited	England & Wales	Investment and management services company	100%	Ordinary 10p shares
Virgin Bride Limited	England & Wales	Bridal services	100%	Ordinary £1 shares
Virgin Enterprises Limited	England & Wales	Licensing of Virgin brand	100%	Ordinary £1 shares
Heaven Limited	England & Wales	Operator of night club and function venues	100%	Ordinary £1 shares
Necker Island (BVI) Limited	British Virgin Islands	Hotel Operator	100%	Ordinary US\$1 shares
Virgin Airship and Balloon Company Limited	England & Wales	Flying balloons	75%	Ordinary £1 shares
VoltaPlace Limited	England & Wales	Investment company	100%	Ordinary £1 shares
Exitium Limited**	England & Wales	Investment company	69%	Ordinary 1p shares
<i>Associated undertakings</i>				
Sound and Media Limited***	England & Wales	Wholesaler of records, videos, tapes and compact discs	50% 100%	Ordinary £1 shares Convertible, redeemable £1 preference shares Partnership
The Lightships Group***	England & Wales	Operation of airships	50%	
Virgin Mobile (Asia) Pte Limited ***	Singapore	Mobile phones	49%	Ordinary class B \$1 shares

* Direct investment held by Barfair Limited

** 61% of Exitium is held directly by Barfair Limited and a further 8% is held indirectly.

*** This is accounted for as an associate undertaking as the Group does not have a significant influence in the affairs of this company.

All of the above companies have been consolidated in these financial statements.

On 6 June 2002, the Group disposed of its interest in Virgin Airship and Balloon Company Limited, VoltaPlace Limited and The Lightships Group for a total of £1 million resulting in an immaterial loss.

On 26th July 2002, the Group converted its holding of 400,000 'A' convertible redeemable preference shares in Sound and Media Limited into 400,000 ordinary 'A' shares of £1 in the company.

On 23 October 2002, the Group disposed of its interests in Heaven Limited for a total of £4.2 million resulting in a profit on the transaction of £2.0 million.

On 31 May 2002, the Group disposed of its entire interests in Virgin Western Limited making a loss on the transaction of £0.5million

Notes (continued)

12 Stocks

	Group 2002 £000	Group 2001 £000
Raw materials and consumables	465	1,006
Work in progress – development land and properties	2,565	10,623
Finished goods and goods for resale	1,876	2,039
	<hr/> 4,906	<hr/> 13,668

The value of development land and properties shown includes cumulative interest capitalised of £nil (2001: £7,926).

13 Debtors

	Group 2002 £000	Company 2002 £000	Group 2001 Restated £000	Company 2001 Restated £000
Trade debtors	12,893	-	16,563	-
Amounts owed by subsidiary undertakings	-	35,302	-	57,091
Amounts owed by related undertakings (see note 27)	260,869	244,106	178,499	161,963
Amounts owed by undertakings in which the company has a participating interest	6,427	-	97	-
Other debtors	16,617	526	25,061	4,214
Deferred taxation (see note 17)	-	370	280	872
Prepayments and accrued income	6,295	-	5,682	541
	<hr/> 303,101	<hr/> 280,304	<hr/> 226,182	<hr/> 224,681

Included within other debtors is an amount of £32,421 (2001: £121,218) owed by Sir Richard Branson, a director of the company during the year, to a subsidiary. The maximum due from Sir Richard Branson during the year was £177,999 (2001: £123,138). The amount due from Sir Richard Branson, which was on interest free terms, has been repaid since the year end.

14 Current asset investments

	Group 2002 £000	Company 2002 £000	Group 2001 £000	Company 2001 £000
Investments held for resale	-	-	-	-
Other investments	818	-	818	-
	<hr/> 818	<hr/> -	<hr/> 818	<hr/> -

Notes (continued)

15 Creditors: amounts falling due within one year

	Group 2002 £000	Company 2002 £000	Group 2001 £000	Company 2001 £000
Bank loans and overdrafts	657	-	3,364	-
Trade creditors	13,874	-	14,381	7
Amounts owed to subsidiary undertakings	-	203,209	-	184,365
Amounts owed to group undertakings	-	168,284	-	-
Amounts owed to related undertakings (see note 27)	375,883	40,910	243,371	87,271
Amounts owed to undertakings in which the company has a participating interest	27	-	29	-
Taxation and social security	10,396	10,440	8,415	4,663
Other creditors	41,227	-	15,123	-
Accruals and deferred income	19,333	250	28,106	120
	<u>461,397</u>	<u>423,093</u>	<u>312,789</u>	<u>276,426</u>

16 Creditors: amounts falling due after more than one year

	Group 2002 £000	Group 2001 £000
Bank loans	10,560	-
Other creditors	22	20
	<u>10,582</u>	<u>20</u>

Analysis of bank loans and overdrafts:

	Group 2002 £000	Group 2001 £000
Bank loans and overdrafts can be analysed as falling due:		
In one year or less, or on demand	657	3,364
Between one and two years	605	-
Between two and five years	1,862	-
In five years or more	8,093	-
	<u>11,217</u>	<u>3,364</u>

Notes (continued)

17 Provisions for liabilities and charges

	Taxation including deferred taxation £000	Provisions for closure costs £000	Total £000
Group			
At 1 February 2001 (restated)	(280)	-	(280)
Provided in the year	650	3,751	4,401
	<hr/>	<hr/>	<hr/>
At 31 January 2002	370	3,751	4,121
	<hr/>	<hr/>	<hr/>

The amounts provided for deferred taxation are set out below:

	2002 Provided £000	2001 Provided £000
Accelerated capital allowances	1,168	969
Short term timing differences	(370)	(882)
Deferred tax asset arising from losses	(428)	(367)
	<hr/>	<hr/>
	370	(280)
	<hr/>	<hr/>

Notes (continued)

18 Called up share capital

	2002 £000	2001 £000
<i>Authorised</i>		
1,000 Ordinary shares of £1 each	1	1
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
1,000 Ordinary shares of £1 each	1	1
	<hr/>	<hr/>

19 Share premium and reserves

Group	Share premium £000	Merger reserve £000	Profit and loss account £000
Balance at 1 February 2001	175,271	54,313	(236,483)
Prior year adjustment	-	-	(592)
	<hr/>	<hr/>	<hr/>
Balance at 1 February 2001 as restated	175,271	54,313	(237,075)
Accumulated loss for the year	-	-	(104,152)
Exchange losses	-	-	982
	<hr/>	<hr/>	<hr/>
At 31 January 2002	175,271	54,313	(340,245)
	<hr/>	<hr/>	<hr/>

Company

	Share premium £000	Profit and loss account £000
Balance at 1 February 2001	175,271	(205,397)
Prior year adjustment	-	872
	<hr/>	<hr/>
Balance at 1 February 2001 as restated	175,271	(204,525)
Accumulated loss for the year	-	(78,996)
	<hr/>	<hr/>
At 31 January 2002	175,271	(283,521)
	<hr/>	<hr/>

Notes (continued)

20 Minority interests

	Group 2002 £000	Group 2001 £000
At beginning of year	570	-
Share of loss for year	(137)	(835)
Acquisition of subsidiary undertaking	-	340
Disposal of interest in subsidiary undertaking	-	1,065
	<hr/>	<hr/>
At end of year	433	570
	<hr/>	<hr/>

No adjustment has been made for minority interest in subsidiaries with net liabilities unless the minority shareholders are formally required to fund those net liabilities in proportion to their share of the equity of the company concerned.

21 Contingent liabilities

The company has undertaken to provide financial assistance to a number of its subsidiary undertakings to enable them to meet their financial obligations as they fall due.

The company was party to group sterling overdraft facilities of up to £60 million, repayable on demand and was party to a guarantee and set off arrangement with a number of subsidiary undertakings.

22 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2002		2001	
Group	Land and buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year	17	6	18	24
In the second to fifth years inclusive	1,228	-	37	132
Over five years	1,045	-	717	-
	<hr/>	<hr/>	<hr/>	<hr/>
	2,290	6	772	156
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

23 Pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the group to the fund and amounted to £320,000 (2001: £355,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

24 Reconciliation of operating loss to operating cash flows

	2002	2001
	£000	Restated £000
Group operating loss	(101,894)	(74,423)
Depreciation, amortisation and impairment charges	3,892	8,592
Provision against bad debts	68,426	29,515
Decrease/(increase) in stocks	8,762	(2,751)
(Increase)/decrease in debtors	(81,789)	61
Increase in creditors	88,421	7,969
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	(14,182)	(31,037)
	<hr/>	<hr/>

Notes (continued)

25 Analysis of cash flows

	2002 £000	2001 £000
Returns on investment and servicing of finance		
Interest received	3,480	3,422
Interest paid	(7,116)	(2,884)
Interest element of finance lease rental payments	-	(28)
	<u>(3,636)</u>	<u>510</u>
 Taxation		
UK corporation tax paid	<u>(2,016)</u>	<u>(1,316)</u>
 Capital expenditure and financial investment		
Purchase of tangible fixed assets	(7,895)	(6,586)
Sale of tangible fixed assets	6,267	1,239
Sale of intangible assets	90	2,941
	<u>(1,538)</u>	<u>(2,406)</u>
 Acquisitions and disposals		
Sale of investment in associate	<u>150</u>	<u>-</u>
 Financing		
New bank loan	10,560	-
Capital element of finance lease rental payments	-	(827)
Other borrowings	12,292	20,000
	<u>22,852</u>	<u>19,173</u>

Notes (continued)

26 Analysis of net debt

	At 1 February 2001	Cash flow	At 31 January 2002
	£000	£000	£000
Cash in hand, at bank	7,035	(1,077)	5,958
Overdrafts	(3,364)	2,707	(657)
	<hr/>	<hr/>	<hr/>
	3,671	1,630	5,301
Bank loans	-	(10,560)	(10,560)
Other borrowings	(50,000)	(12,292)	(62,292)
	<hr/>	<hr/>	<hr/>
Total	(46,329)	(21,222)	(67,551)
	<hr/>	<hr/>	<hr/>

27 Related party disclosures

At 31 January 2002 the company's ultimate parent 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 Richard Branson and/or his immediate family. The shareholders of Virgin Group Investments Limited have interests directly or indirectly in certain other companies, which give rise to related party disclosures under financial Reporting Standard No.8.

	Associated undertakings 31 January 2002 £000	Parent and fellow group undertakings 31 January 2002 £000	Other related parties 31 January 2002 £000
Turnover	-	7,991	-
Interest payable	-	-	48,681
Interest receivable	-	-	60,177
Amounts provided against debtors	-	68,426	-
Creditors	27	334,378	41,505
Debtors	6,427	219,215	41,654

Intercompany funding balances due to and from parent, fellow subsidiary and associated undertakings attract a variety of interest rates.

Notes (continued)

27 Related party disclosures (continued)

The associated undertakings with whom the group transacted during the year were Storm Model Management Limited, Voltaplace Limited, Rapido TV Investments Limited and The Lightship Group.

The parent and fellow group undertakings with whom the group transacted or had committed facilities during the year were Virgin Group Investments Limited, Bluebottle Investments Inc, Ivanco (No.1) Limited, Virgin Books Limited, Virgin Cars (Holdings) Limited, Virgin.com Limited, Virgin Blue Holdings Limited, Virgin Media Group Limited, Virgin Wines Online Limited, Virgin Audio Limited, Virgin Hotels Group Limited, Virgin Performance Limited, Virgin Rail Group Limited, Bluebottle UK Limited, Capolito Roma, Ivanco (No.2) Limited, Ivanco (No.3) Limited, Justwalk Limited, Package Holidays Direct Limited, The Trainline.com Limited, Ulusaba Rock Lodge (Pty) Limited, V2 Music Limited, Victory Corporation Plc, Virgin Active Holdings Limited, Virgin Active Limited, Virgin Active South Africa (Pty) Limited, Virgin Atlantic Limited, Virgin Audio Holdings LLC, Virgin Australia Holdings Pty Limited, Virgin Biznet Limited, Virgin Blue Airlines Pty Limited, Virgin Café Lilles SARL, Virgin Cars Limited, The Virgin Clothing Company Limited, Virgin Clubs Limited, Virgin Entertainment Group Limited, Virgin Entertainment Group Inc, Virgin Express Holdings Plc, Virgin Express SA, Virgin Holdings SA, Virgin Hotels Limited, Virgin Investments SA, Virgin Leisure Limited, Virgin Mobile (Australia) Pty Limited, Virgin Mobile Telecoms Limited, Virgin Mobile USA Inc, Virgin Money Personal Financial Services Limited, Virgin Net Limited, Virgin Retail Group Limited, Virgin Retail Europe Limited, Virgin Retail Limited, Virgin Retail UK Limited, Virgin Retail Group (UK) Limited, Virgin Retail (Ireland) Limited, Virgin Student Limited, Virgin Travelstore Limited and West Coast Trains Limited.

The related party undertakings with whom the group transacted during the year were Virgin Group Finance LP, Virgin H.E.M.S (London) Limited, Dragonfly SA, Virgin HomeEnergy Limited, Virgin Radio Asia Holdings Limited, Virgin Radio Asia Holdings UK Limited and Sir Richard Branson.

28 Ultimate parent undertaking

As at 31 January 2002, the ultimate parent company was Virgin Group Investments Limited, a company registered in the British Virgin Islands.