

Barfair Limited

**Directors' report and consolidated
financial statements**

Registered number 3552508

14 month period ended 31 March 2004



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Directors' report

The directors present their annual report and the audited financial statements for the 14 month period ended 31 March 2004.

During the period the Company changed its year end from 31 January to 31 March.

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 12 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 airships and balloons, wholesaler and retailer of books and DVD's, television production and office printing services.

Results for the period

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

The directors do not propose payment of a dividend (2003: £nil).

On 21 January 2004, Virgin Management Limited purchased 77.5% of Virgin Life Care Investments Limited (Formerly Body IQ Investments Limited) by acquiring existing shares in the company for consideration of £449,000.

On 5 February 2004, the Company acquired 25% of M S Vehicle Management Limited for a non-cash consideration of £2.5 million.

Post balance sheet events

On 16 June 2004, Virgin Management Limited acquired 49 £1 ordinary F shares in Virgin Business Solutions Limited for a cash consideration of £25,000.

On 18 October 2004, the Company acquired a further 1,993,559 £1 ordinary shares in MS Vehicle Management Limited for a cash consideration of £3 million.

On 30 November 2004, Virgin Management Limited agreed to sell its investment in Virgin Life Care Investments Limited (formerly Body IQ Limited) to another group company; the final consideration has not yet been confirmed.

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 period. Donations to UK charities amounted to £225,000 (2003: £192,000).

Directors' report *(continued)*

Directors and directors' interests

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

GD McCallum
STM Murphy
WE Whitehorn

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 other directors who held office at the end of the financial period had any disclosable interest in the shares of group companies.

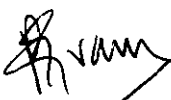
According to the register of directors' interests, no rights to subscribe for shares in or debentures of group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial period.

Auditors

The members of the Company have passed elective resolutions 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 reappointing 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
2005

4 April

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 auditor, KPMG LLP, to the members of Barfair Limited

We have audited the financial statements on pages 5 to 34.

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 March 2004 and of the loss of the group for the 14 month period ended 31 March 2004 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

4 April 2005.

Consolidated profit and loss account
for the 14 month period ended 31 March 2004

	<i>Note</i>	14 month period ended 31 March 2004 £000	Year ended 31 January 2003 £000
Turnover			
Continuing operations		76,133	80,356
Discontinued operations		-	2,872
		<hr/> 76,133	<hr/> 83,228
Less share of associates' turnover		(5,929)	(6,478)
		<hr/>	<hr/>
Cost of sales	4	70,204 (31,026)	76,750 (38,764)
		<hr/>	<hr/>
Gross profit		39,178	37,986
Distribution costs		(783)	(1,184)
Administrative expenses (<i>exceptional costs of £147,084,000; 2003: £66,680,000</i>)	3	(217,111)	(123,112)
Other operating income		2,184	1,272
		<hr/>	<hr/>
Group operating loss			
Continuing operations	2	(175,992)	(84,906)
Acquisitions	2	(540)	-
Discontinued operations	2	-	(132)
		<hr/>	<hr/>
Share of operating (loss)/profit of associate	2,4	(176,532) (203)	(85,038) 5,522
		<hr/>	<hr/>
Total operating loss		(176,735)	(79,516)
Profit on disposal of discontinued operations		-	1,431
(Loss)/profit on disposal of investments – discontinued operations		(137)	4
Loss on disposal of fixed assets – continuing operations		(233)	(2,732)
		<hr/>	<hr/>
Loss before interest and taxation		(177,105)	(80,813)
Other interest receivable and similar income	7	51,818	39,487
Interest payable and similar charges	8	(41,268)	(39,272)
		<hr/>	<hr/>
Loss on ordinary activities before taxation	3	(166,555)	(80,598)
Tax on loss on ordinary activities	9	(2,241)	2,551
		<hr/>	<hr/>
Loss on ordinary activities after taxation		(168,796)	(78,047)
Minority interest	21	(15)	145
		<hr/>	<hr/>
Loss for the financial period		(168,811)	(77,902)
		<hr/>	<hr/>

The notes on pages 10 to 34 form part of these financial statements.

Consolidated balance sheet
at 31 March 2004

	<i>Note</i>	31 March 2004	31 January 2003
		£000	£000
Fixed assets			
Intangible assets	10	1,036	26,818
Tangible assets	11	16,915	20,550
Investments	12	8,129	-
		<hr/>	<hr/>
		26,080	47,368
Current assets			
Stocks	13	1,763	3,534
Debtors	14	278,066	287,302
Investments	15	-	818
Cash at bank and in hand		10,894	10,196
		<hr/>	<hr/>
		290,723	301,850
Creditors: amounts falling due within one year	16	(657,342)	(521,644)
		<hr/>	<hr/>
Net current liabilities		(366,619)	(219,794)
		<hr/>	<hr/>
Total assets less current liabilities		(340,539)	(172,426)
Creditors: amounts falling due after more than one year	17	(8,199)	(9,360)
Provisions for liabilities and charges	18	(5,135)	(5,173)
		<hr/>	<hr/>
Net liabilities		(353,873)	(186,959)
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	19	1	1
Share premium	20	175,271	175,271
Other reserves	20	54,313	54,313
Profit and loss account	20	(583,857)	(416,884)
		<hr/>	<hr/>
Equity shareholders' deficit		(354,272)	(187,299)
Minority interests	21	399	340
		<hr/>	<hr/>
		(353,873)	(186,959)
		<hr/>	<hr/>

The notes on pages 10 to 34 form part of these financial statements.

These financial statements were approved by the board of directors on *4 April 2005* and were signed on its behalf by:

WE Whitehorn
Director



Company balance sheet
at 31 March 2004

	<i>Note</i>	31 March 2004 £000	31 January 2003 £000
Fixed assets			
Investments	12	8,349	-
Current assets			
Debtors	14	274,583	271,903
Cash at bank and in hand		39,468	28,543
		<u>314,051</u>	<u>300,446</u>
Creditors: amounts falling due within one year	16	<u>(651,421)</u>	<u>(500,695)</u>
Net current liabilities		<u>(337,370)</u>	<u>(200,249)</u>
Net liabilities		<u>(329,021)</u>	<u>(200,249)</u>
Capital and reserves			
Called up share capital	19	1	1
Share premium	20	175,271	175,271
Profit and loss account	20	<u>(504,293)</u>	<u>(375,521)</u>
Equity shareholders' deficit		<u>(329,021)</u>	<u>(200,249)</u>

The notes on pages 10 to 34 form part of these financial statements.

These financial statements were approved by the board of directors on *4 April 2005* and were signed on its behalf by:

WE Whitehorn
Director



Consolidated cash flow statement
for the 14 month period ended 31 March 2004

	<i>Notes</i>	14 month period ended 31 March 2004 £000	Year ended 31 January 2003 £000
Cash flow from operating activities	25	(54,243)	7,258
Returns on investments and servicing of finance	26	11,161	(4,596)
Taxation	26	-	-
Capital expenditure and financial investment	26	(86,255)	(1,283)
		<hr/>	<hr/>
Acquisitions and disposals	26	(129,337) (449)	1,379 (1,022)
		<hr/>	<hr/>
Cash (outflow)/inflow before financing		(129,786)	357
Financing	26	130,481	(784)
		<hr/>	<hr/>
Increase/(decrease) in cash in the period		695	(427)
		<hr/>	<hr/>

Reconciliation of net cash flow to movement in net debt
for the 14 month period ended 31 March 2004

	14 month period ended 31 March 2004 £000	Year ended 31 January 2003 £000
Increase/(decrease) in cash in the period	695	(427)
Cash (outflow)/inflow from (increase)/ decrease in debt and lease financing	(130,481)	784
	<hr/>	<hr/>
Change in net debt resulting from cash flows	(129,786)	357
Other non cash items:		
Reclassification of group balances	(217,837)	-
Accrued interest	(15,900)	-
Foreign Exchange	1,672	-
	<hr/>	<hr/>
Movement in net debt in the period	(361,851)	357
Net debt at the start of the period	(67,194)	(67,551)
	<hr/>	<hr/>
Net debt at the end of the period	(429,045)	(67,194)
	<hr/>	<hr/>

The notes on pages 10 to 34 form part of these financial statements.

Consolidated statement of total recognised gains and losses
for the 14 month period ended 31 March 2004

	14 month period ended 31 March 2004 £000 Group	Year ended 31 January 2003 £000 Group
Loss for the financial period		
Group	(168,591)	(83,424)
Associate (loss)/profit	(220)	5,522
	<hr/>	<hr/>
	(168,811)	(77,902)
Currency translation differences on net foreign currency investments	1,838	972
	<hr/>	<hr/>
Total recognised gains and losses relating to the period	<u>(166,973)</u>	<u>(76,930)</u>

Reconciliations of movements in shareholders' deficit
for the 14 month period ended 31 March 2004

	14 month period ended 31 March 2004 £000 Group	14 month period ended 31 March 2004 £000 Company	Year ended 31 January 2003 £000 Group	Year ended 31 January 2003 £000 Company
Total recognised gains and losses relating to the period	(166,973)	(128,772)	(76,930)	(92,000)
Opening shareholders' deficit	(187,299)	(200,249)	(110,660)	(108,249)
Inter company debt waiver	-	-	291	-
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' deficit	<u>(354,272)</u>	<u>(329,021)</u>	<u>(187,299)</u>	<u>(200,249)</u>

Notes

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 March 2004. 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 and investments

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.

Notes (continued)

Accounting policies (continued)

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.

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.

Intangible fixed assets

Intangible fixed assets purchased separately from a business are capitalised at their cost. Intangible assets acquired as part of an acquisition are capitalised at their fair value where it can be measure reliably. Concessions, patents, licences and trademarks purchased by the company are amortised to nil by equal annual instalments over their useful economic lives, generally the respective unexpired periods.

Stocks

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

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.

Notes (continued)

Accounting policies (continued)

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.

2 Analysis of continuing and discontinued operations

	14 month period ended 31 March 2004			Year ended 31 January 2003		
	Acquisitions £000	Continuing £000	Total £000	Continuing £000	Discontinued £000	Total £000
Turnover	5,929	70,204	76,133	80,356	2,872	83,228
Less share of associate turnover	(5,929)	-	(5,929)	(6,478)	-	(6,478)
Cost of sales	-	(31,026)	(31,026)	(37,309)	(1,455)	(38,764)
Gross profit	-	39,178	39,178	36,569	1,417	37,986
Distribution costs	-	(783)	(783)	(1,184)	-	(1,184)
Administrative expenses	(540)	(216,571)	(217,111)	(121,563)	(1,549)	(123,112)
Other operating income	-	2,184	2,184	1,272	-	1,272
	(540)	(175,992)	(176,532)	(84,906)	(132)	(85,038)
Share of operating (loss)/profit of associate	(203)	-	(203)	5,522	-	5,522
Operating loss	(743)	(175,992)	(176,735)	(79,384)	(132)	(79,516)

Notes (continued)

3 Loss on ordinary activities before taxation

	14 month period ended 31 March 2004 £000	Year ended 31 January 2003 £000
<i>Loss on ordinary activities before taxation is stated</i>		
<i>after charging/(crediting)</i>		
Auditors' remuneration:		
Group - audit	357	365
- fees paid to the auditors and its associates in respect of other services	8	(483)
Company - audit	43	20
Depreciation of tangible fixed assets	2,165	2,268
Amortisation of intangible fixed assets	1,972	1,703
Amortisation of fixed assets investments	137	-
Hire of plant and machinery – rentals payable under operating leases	90	229
Hire of other assets – operating leases	1,808	2,475
Rent receivable	1,102	988

The following exceptional items have been charged/credited:

Impairment of goodwill and intangible fixed assets	24,920	1,395
Provision against amounts due from related undertakings	121,333	70,595
Impairment of tangible fixed assets	831	321
Net impairment against investments	-	(5,631)

Notes (continued)

4 Analysis of turnover, operating loss and net liabilities

Turnover, operating loss and net assets are analysed below:

<i>By activity</i>	Turnover 14 month period ended 31 March 2004 £000	Group operating (loss)/profit 14 month period ended 31 March 2004 £000	Turnover Year ended 31 January 2003 £000	Group operating (loss)/profit Year ended 31 January 2003 £000
Wholesale and retail	27,511	1,366	32,629	(3,662)
Property	-	(637)	1,263	(3,683)
Clubs and hotels	5,967	580	5,346	313
Merchandising and event management	19,161	(1,433)	18,369	(655)
Trademark licensing	12,428	10,862	9,885	3,105
Balloons and airships	570	598	627	(509)
Management services and other	10,496	(188,071)	12,237	(74,293)
	<hr/>	<hr/>	<hr/>	<hr/>
	76,133	(176,735)	80,356	(79,384)
Discontinued				
Clubs and hotels	-	-	2,872	(132)
	<hr/>	<hr/>	<hr/>	<hr/>
	76,133	(176,735)	83,228	(79,516)
Less share of associate revenue/operating (loss)/profit	(5,929)	203	(6,478)	(5,522)
	<hr/>	<hr/>	<hr/>	<hr/>
	70,204	(176,532)	76,750	(85,038)
	<hr/>	<hr/>	<hr/>	<hr/>

Management services and other includes provisions against amounts due from related parties and a charge for the impairment of goodwill as described in note 10 below.

Notes (continued)

4 Analysis of turnover, operating loss and net liabilities (continued)

Net liabilities

	31 March 2004 £000	31 January 2003 £000
Wholesale and retail	(91,655)	(17,139)
Property	(4,503)	(18,921)
Clubs and hotels	599	908
Merchandising and event management	(4,589)	(2,769)
Trademark licensing	62,137	43,891
Balloons and airships	(2,971)	(3,055)
Management services and other	(312,891)	(189,874)
	<u>(353,873)</u>	<u>(186,959)</u>

By geographical market

	Turnover 14 month period ended 31 March 2004 £000	Group operating loss 14 month period ended 31 March 2004 £000	Turnover Year ended 31 January 2003 £000	Group operating loss Year ended 31 January 2003 £000
UK and Ireland	60,926	(171,313)	63,556	(84,233)
Rest of Europe	4,996	2,025	11,811	(1,607)
Rest of World	10,211	(7,447)	7,861	6,324
	<u>76,133</u>	<u>(176,735)</u>	<u>83,228</u>	<u>(79,516)</u>
Less share of associate revenue/operating (loss)/profit	(5,929)	203	(6,478)	(5,522)
	<u>70,204</u>	<u>(176,532)</u>	<u>76,750</u>	<u>(85,038)</u>

Net liabilities

	31 March 2004 £000	31 January 2003 £000
UK and Ireland	(375,728)	(186,602)
Rest of Europe	2,558	20,355
Rest of World	19,297	(20,712)
	<u>(353,873)</u>	<u>(186,959)</u>

Notes (continued)

5 Remuneration of directors

	14 month period ended 31 March 2004 £000	Year ended 31 January 2003 £000
Directors' emoluments	973	975
Company contributions to money purchase pension schemes	98	63
	<u>1,071</u>	<u>1,038</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £368,477 (2003: £382,000). No company pension contributions were made on his behalf.

	Number of directors	
	14 month period ended 31 March 2004	Year ended 31 January 2003
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	3	3

6 Staff numbers and costs

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

	Number of employees	
	14 month period ended 31 March 2004	Year ended 31 January 2003
Management and administration	238	225
Selling and distribution	97	255
Operations and other	120	113
	<u>455</u>	<u>593</u>

The aggregate payroll costs of these persons were as follows:

	14 month period ended 31 March 2004 £000	Year ended 31 January 2003 £000
Wages and salaries	19,247	16,443
Social security costs	1,821	1,184
Other pension costs	432	312
Other	772	486
	<u>22,272</u>	<u>18,425</u>

Notes (continued)

7 Other interest receivable and similar income

	14 month period ended 31 March 2004 £000	Year ended 31 January 2003 £000
Bank interest	923	3,666
Other interest	229	126
Foreign exchange gains	3,182	468
Share of joint venture	-	41
Interest receivable from related parties	47,484	35,186
	<u>51,818</u>	<u>39,487</u>

8 Interest payable and similar charges

	14 month period ended 31 March 2004 £000	Year ended 31 January 2003 £000
On bank loans and overdrafts	6,206	954
Other interest	5,644	4,922
Finance charges payable in respect of finance leases and hire purchase contracts	12	13
Foreign exchange losses	1,952	11,207
Interest payable to related parties	27,437	22,093
Share of associate	17	83
	<u>41,268</u>	<u>39,272</u>

9 Taxation

	14 month period ended 31 March 2004 £000	Year ended 31 January 2003 £000
<i>UK corporation tax:</i>		
Current tax on income for the period	3,010	-
Adjusted in respect of prior periods	(129)	120
	<u>2,881</u>	<u>120</u>
Foreign tax	144	10
	<u>3,025</u>	<u>130</u>
Total current tax	3,025	130
Deferred tax for period	(784)	(455)
Adjusted in respect of prior periods	-	(2,226)
	<u>2,241</u>	<u>(2,551)</u>
Tax (credit)/charge on loss on ordinary activities	2,241	(2,551)

Notes (continued)

9 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2003:higher) than the standard rate of corporation tax in the UK 30% (2003:30%). The differences are explained below.

	14 month period ended 31 March 2004 £000	Year ended 31 January 2003 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(166,555)	(80,598)
	<hr/>	<hr/>
Current tax at 30% (2003:30%)	(49,966)	(24,179)
<i>Effects of:</i>		
Capital allowances for period in excess of depreciation	(125)	443
Other short term timing differences	767	349
Unrelieved overseas tax losses	837	857
Utilisation of tax losses bought forward	(42)	(5)
Adjustment in respect of prior years	(129)	120
Expenses not deductible for tax purposes	51,539	22,164
Unrelieved tax losses	144	381
	<hr/>	<hr/>
	3,025	130
	<hr/>	<hr/>

Factors that may affect future tax losses

As at 31 March 2004, the group had tax losses and other timing differences available to carry forward of approximately £123 million (2003: £103 million) 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)*

10 Intangible fixed assets

Group	Goodwill	Other assets	Total
	£000	£000	£000
Cost			
At 1 February 2003	61,602	34	61,636
Additions	364	499	863
Disposals	-	(1)	(1)
Reclassifications	-	274	274
At 31 March 2004	61,966	806	62,772
Amortisation and impairments			
At 1 February 2003	34,796	22	34,818
Charged in period	1,962	10	1,972
Impairment	24,818	102	24,920
Disposals	-	(1)	(1)
Reclassifications	-	27	27
At 31 March 2004	61,576	160	61,736
Net book value			
At 31 March 2004	390	646	1,036
At 1 February 2003	26,806	12	26,818

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 impairment charge is appropriate.

Where evidence of goodwill impairment has arisen, the impairment charge was taken to the profit and loss account.

The additions and reclassifications under other assets relate to development cost and drinks licenses respectively. The drinks licenses were reclassified from tangible fixed assets (see note 11)

Notes (continued)

11 Tangible fixed assets

Group	Freehold and leasehold 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 2003	18,091	4,625	4,903	367	27,986
Additions	378	651	342	90	1,461
Disposals	(126)	(241)	(757)	(21)	(1,145)
Reclassifications	(763)	-	489	-	(274)
Exchange differences	(1,316)	(629)	(213)	(45)	(2,203)
At 31 March 2004	16,264	4,406	4,764	391	25,825
<i>Depreciation</i>					
At 1 February 2003	1,545	3,297	2,290	304	7,436
Charge for period	640	742	717	66	2,165
Impairment	-	252	579	-	831
Disposals	(114)	(217)	(241)	(20)	(592)
Reclassifications	(460)	-	433	-	(27)
Exchange differences	(143)	(571)	(152)	(37)	(903)
At 31 March 2004	1,468	3,503	3,626	313	8,910
<i>Net book value</i>					
At 31 March 2004	14,796	903	1,138	78	16,915
At 31 January 2003	16,546	1,328	2,613	63	20,550

Included in the total net book value of motor vehicles is £109,000 (2003: £138,000) in respect of assets held under finance leases (and similar hire purchase contracts). Depreciation for the period on these assets is £66,000 (2003: £71,000).

Notes *(continued)*

11 Tangible fixed assets (continued)

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

	31 March 2004 £000	31 January 2003 £000
Net book value		
Freehold land and building	10,039	11,443
Leasehold land and buildings	4,757	5,103
	<hr/> 14,796 <hr/>	<hr/> 16,546 <hr/>
Depreciation charged in the period		
Freehold land and building	379	351
Leasehold land and buildings	261	532
	<hr/> 640 <hr/>	<hr/> 883 <hr/>

Notes (continued)

12 Fixed asset investments

Group	Interests in associated undertakings £000	Other unlisted investments £000	Total investments £000
<i>Cost</i>			
At 1 February 2003	480	844	1,324
Reclassifications	-	5,849	5,849
Acquisitions	2,500	-	2,500
At 31 March 2004	2,980	6,693	9,673
<i>Share of post acquisition reserves</i>			
Balance at 1 February 2003	-	-	-
Retained loss for the period	(66)	-	(66)
Share of interest	(17)	-	(17)
Amortisation of premium on acquisition	(137)	-	(137)
At 31 March 2004	(220)	-	(220)
<i>Impairments</i>			
At 1 February 2003 & 31 March 2004	(480)	(844)	(1,324)
<i>Net book value</i>			
At 31 March 2004	2,280	5,849	8,129
At 31 January 2003	-	-	-

On 5 February 2004, the Company acquired 25% of M S Vehicle Management Limited for a non-cash consideration of £2.5 million.

On 18 October 2004 the Company acquired a further 1,993,559 £1 ordinary shares in MS Vehicle Management Limited for a cash consideration of £3 million.

Notes *(continued)*

12 Fixed asset investments *(continued)*

Company	Shares in group undertaking £000
<i>Cost</i>	
At 1 February 2003	269
Reclassifications	5,849
Additions	2,500
	<hr/>
At 31 March 2004	8,618
<i>Provisions</i>	
At 1 February 2003 and 31 March 2004	(269)
	<hr/>
<i>Net book value</i>	
At 31 March 2004	8,349
	<hr/> <hr/>
At 1 February 2003	-
	<hr/> <hr/>

Notes (continued)

12 Fixed asset investments (continued)

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

	Country of Registration	Principal Activity	Holding %	Type of share
Subsidiary undertakings				
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 Group Limited	England & Wales	Investment holding company	100%	Ordinary 10p shares
Voyager Group Limited	England & Wales	Investment holding company	100%	Ordinary 10p shares
Virgin Projects Limited	England & Wales	Print, procurement and event organisation	95.24%	Ordinary 1p shares
Virgin Limobike	England & Wales	Motorbike taxi's	100%	Ordinary £1 shares
Virgin Radio International	England & Wales	Investment holding company	100%	Ordinary £1 shares
120 Campden Hill Road Limited	England & Wales	Property company	100%	Ordinary £1 shares
Virgin Enterprises Limited	England & Wales	Licensing of Virgin brand	100%	Ordinary £1 shares
S L Insurance Limited	Guernsey	Insurance and reinsurance business	100%	Ordinary US\$1 shares
Virgin Vouchers Limited	England & Wales	Vendor of denominated vouchers	100%	Ordinary £1 shares
Necker Island BVI Limited	British Virgin Islands	Hotel Operator	100%	Ordinary US\$1 shares
Exitium Limited**	England & Wales	Investment company	60.85%	Ordinary 1p shares
Virgin Business Solutions Limited	England & Wales	Telecommunications provider	51%	Ordinary V £1 shares
			49%	Ordinary F £1 shares
Sound and Media Limited	England & Wales	Wholesaler and retailer of books and DVDs	98.78%	Ordinary £1 shares
			100%	Convertible, redeemable £1 preference shares
Virgin Life Care Investments Limited (formerly Body IQ Investments Limited)	England & Wales	Health/life insurance provider	77.5%	Ordinary A £0.0001 shares
Virgin Mobile Holdings Pte Limited	Singapore	Mobile phones	100%	Ordinary class A \$1 shares
				Ordinary class B \$1 shares
Virgin Balloon Flights Limited	England & Wales	Air Transport	100%	Ordinary £1 shares
Associate				
MS Vehicle Management Limited	England & Wales	Selling cars	25%	Ordinary £1 shares

* Direct investment held by Barfair Limited

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

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

Notes (continued)

13 Stocks

Group	31 March 2004 £000	31 January 2003 £000
Raw materials and consumables	148	144
Work in progress	125	-
Finished goods and goods for resale	1,490	3,390
	<hr/> 1,763 <hr/>	<hr/> 3,534 <hr/>

14 Debtors

	Group 31 March 2004 £000	Company 31 March 2004 £000	Group 31 January 2003 £000	Company 31 January 2003 £000
Trade debtors	5,920	-	10,847	-
Amounts owed by subsidiary undertakings	-	30,097	-	33,860
Amounts owed by related undertakings (see note 28)	226,750	214,324	218,328	204,557
Amounts owed by undertakings in which the company has a participating interest	26,516	26,238	33,668	30,123
Other debtors	8,021	-	12,316	382
Group relief debtor	4,651	-	4,651	-
Deferred taxation	3,313	3,873	2,456	2,961
Prepayments and accrued income	2,895	51	5,036	20
	<hr/> 278,066 <hr/>	<hr/> 274,583 <hr/>	<hr/> 287,302 <hr/>	<hr/> 271,903 <hr/>

Notes (continued)

15 Current asset investments

	Group 31 March 2004 £000	Company 31 March 2004 £000	Group 31 January 2003 £000	Company 31 January 2003 £000
Other investments	-	-	818	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	818	-
	<hr/>	<hr/>	<hr/>	<hr/>

16 Creditors: amounts falling due within one year

	Group 31 March 2004 £000	Company 31 March 2004 £000	Group 31 January 2003 £000	Company 31 January 2003 £000
Bank loans and overdrafts	5,325	-	5,322	-
Trade creditors	9,059	1	10,742	96
Amounts owed to subsidiary undertakings	-	204,665	-	178,055
Amounts owed to related undertakings (see note 28)	612,170	420,136	464,283	305,762
Amounts owed to undertakings in which the company has a participating interest	-	-	3,099	-
Corporation tax	13,898	26,477	10,873	16,611
Other creditors	9,625	-	10,584	-
Accruals and deferred income	7,265	142	16,741	171
	<hr/>	<hr/>	<hr/>	<hr/>
	657,342	651,421	521,644	500,695
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

17 Creditors: amounts falling due after more than one year

	31 March 2004 £000	31 January 2003 £000
Group		
Bank loans	8,077	9,198
Other creditors	13	24
Finance lease obligations	109	138
	<hr/> 8,199	<hr/> 9,360
	<hr/>	<hr/>

Analysis of loans:

	31 March 2004 £000	31 January 2003 £000
Group		
Loans can be analysed as falling due:		
In one year or less, or on demand	5,325	5,322
Between one and two years	434	457
Between two and five years	1,432	1,515
In five years or more	6,211	7,226
	<hr/> 13,402	<hr/> 14,520
	<hr/>	<hr/>

Analysis of finance leases:

	31 March 2004 £000	31 January 2003 £000
Group		
Finance leases can be analysed as falling due:		
In one year or less, or on demand	-	28
Between one and two years	78	49
Between two and five years	31	61
In five years or more	-	-
	<hr/> 109	<hr/> 138
	<hr/>	<hr/>

Notes (continued)

18 Provisions for liabilities and charges

	Provision for closure costs £000	Other provisions £000	Total £000
Group			
At 1 February 2003	2,490	2,683	5,173
Utilised in period	-	(480)	(480)
Amounts charged/(credited) in period	-	1,772	1,772
Amounts released unused	(1,330)	-	(1,330)
	<hr/>	<hr/>	<hr/>
At 31 March 2004	1,160	3,975	5,135
	<hr/>	<hr/>	<hr/>

The amounts provided for deferred taxation and the amounts not provided are set out below:

	31 March 2004 Provided £000	31 March 2004 Unprovided £000	31 January 2003 Provided £000	31 January 2003 Unprovided £000
Accelerated capital allowances	1,060	(1,297)	872	(1,465)
Short term timing differences	(3,872)	(26)	(2,951)	(37)
Deferred tax asset arising from losses	(501)	(35,899)	(377)	(29,624)
	<hr/>	<hr/>	<hr/>	<hr/>
	(3,313)	(37,222)	(2,456)	(31,126)
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

19 Called up share capital

	31 March 2004 £000	31 January 2003 £000
<i>Authorised</i>		
1,000 Ordinary shares of £1 each	1	1
	<u>1</u>	<u>1</u>
<i>Allotted, called up and fully paid</i>		
1,000 Ordinary shares of £1 each	1	1
	<u>1</u>	<u>1</u>

20 Share premium and reserves

Group	Share premium £000	Merger reserve £000	Profit and loss account £000
At 1 February 2003	175,271	54,313	(416,884)
Accumulated loss for the period	-	-	(168,811)
Exchange losses	-	-	1,838
	<u>175,271</u>	<u>54,313</u>	<u>(583,857)</u>
At 31 March 2004	<u>175,271</u>	<u>54,313</u>	<u>(583,857)</u>
Company		Share premium £000	Profit and loss account £000
At 1 February 2003		175,271	(375,521)
Accumulated loss for the period		-	(128,772)
		<u>175,271</u>	<u>(504,293)</u>
At 31 March 2004		<u>175,271</u>	<u>(504,293)</u>

21 Minority interests

	31 March 2004 £000	31 January 2003 £000
Group		
At 1 February 2003	340	433
On acquisition	24	-
Share of loss/(profit) for period	15	(145)
Foreign exchange	20	52
	<u>399</u>	<u>340</u>
At 31 March 2004	<u>399</u>	<u>340</u>

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.

Notes (continued)

22 Contingent liabilities

The company is party to a group overdraft facility of £85 million, all of which is repayable on demand. The Group provides guarantees for other group and related party undertakings. A number of these guarantees cover operating lease commitments in relation to 19 properties owned by Virgin Active Group Limited, Virgin Clubs Limited, and Virgin Cars Limited. No provision has been made in relation to these guarantees which the directors do not expect to give rise to any liability.

23 Commitments

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

	31 March 2004 Land and buildings £000	31 March 2004 Other £000	31 January 2003 Land and Buildings £000	31 January 2003 Other £000
Group				
Operating leases which expire:				
Within one year	149	30	74	14
In the second to fifth years inclusive	2,200	147	1,913	-
Over five years	1,688	-	1,282	-
	<u>4,037</u>	<u>177</u>	<u>3,269</u>	<u>14</u>

24 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 £432,000 (2003: £312,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

25 Reconciliation of operating loss to operating cash flows

	14 month period ended 31 March 2004 £000	Year ended 31 January 2003 £000
Group operating loss	(176,532)	(85,038)
Depreciation, amortisation and impairment charges	29,888	5,711
Provision against bad debts	121,333	70,595
Decrease in stocks	1,771	1,372
Increase in debtors	2,440	(16,543)
(Decrease)/increase in creditors	(33,143)	31,161
Net cash inflow from operating activities	<u>(54,243)</u>	<u>7,258</u>

Notes (continued)

26 Analysis of cash flows

	14 month period ended 31 March 2004 £000	Year ended 31 January 2003 £000
Returns on investment and servicing of finance		
Interest received	14,972	3,792
Interest paid	(3,811)	(8,388)
	<u>11,161</u>	<u>(4,596)</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,409)	(1,283)
Sale of tangible fixed assets	320	-
Funding provided to related undertakings	(271,185)	-
Repayments of amounts funded to related undertakings	185,201	-
Sale of current asset investments	818	-
	<u>(86,255)</u>	<u>(1,283)</u>
Acquisitions and disposals		
Sale of investment in subsidiaries	-	2,150
Net overdraft acquired with subsidiaries	-	(3,172)
Purchase of investment in subsidiary	(449)	-
	<u>(449)</u>	<u>(1,022)</u>
Financing		
Repaid bank loan	(161)	(224)
Other borrowings	131,597	(560)
Repaid other borrowings	(955)	-
	<u>130,481</u>	<u>(784)</u>

27 Analysis of net debt

	1 February 2003 £000	Cash flow £000	Reclassification £000	Non-cash £000	31 March 2004 £000
Cash in hand, at bank	10,196	698	-	-	10,894
Overdrafts	(5,322)	(3)	-	-	(5,325)
	<u>4,874</u>	<u>695</u>	<u>-</u>	<u>-</u>	<u>5,569</u>
Bank loans	(10,336)	161	-	2,098	(8,077)
Other borrowings	(61,732)	(130,642)	(217,837)	(16,326)	(426,537)
	<u>(67,194)</u>	<u>(129,786)</u>	<u>(217,837)</u>	<u>(14,228)</u>	<u>(429,045)</u>

£217,837,000 intra group borrowings at 31 January 2003 have been reclassified into net debt.

Notes (continued)

28 Related party disclosures

At 31 March 2004 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.

	Joint ventures undertakings		Related undertakings		Other Related undertakings	
	31 March 2004 £000	31 January 2003 £000	31 March 2004 £000	31 January 2003 £000	31 March 2004 £000	31 January 2003 £000
Creditors	-	3,099	612,170	464,283	48,448	31,048
Debtors	26,156	33,668	226,750	218,328	-	-
Interest payable	-	83	24,406	20,533	3,031	1,560
Interest receivable	-	41	47,484	35,186	-	-
Turnover	4	132	26,702	24,854	-	-
Other operating income	89	-	1,067	322	-	-
Administration expenses	-	-	2,028	855	-	-

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

The joint ventures with whom the group transacted during the year were Virgin Active Group Ltd and Virgin Mobile USA Inc.

The other related party with whom the group transacted was Sir Richard Branson and the Trusts referred to above.

The related party undertakings with whom the group transacted during the period were Bluebottle Investment Inc, Bluebottle UK Limited, Bluebottle USA Holdings Inc, Bluebottle USA Investments LP, Dragonfly SA, Ivanco (No.1) Limited, Newstart Investments Limited, Package Holidays Direct Limited, Rapido TV Investments Limited, V2 Music Limited, Victory Corporation Plc, Virgin Atlantic Limited, Virgin Audio Holdings LLC, Virgin Blue Holdings, Virgin Books Limited, Virgin Cars Limited, Virgin Cars (Holdings) Limited, Virgin.com Limited, Virgin Express Holdings Plc, Virgin Group Finance LP, Virgin Group Investments Limited, Virgin Holdings SA, Virgin Home Limited, Virgin HomeEnergy Limited, Virgin Homephone Limited, Virgin Investments SA, Virgin Leisure Limited, Virgin Media Group Limited, Virgin Mobile (Australia) Pty Limited, Virgin Mobile Telecoms Limited, Virgin Mobile USA Inc, Virgin Mobile USA LLC, Virgin Net Limited, Virgin Radio Asia Holdings UK Limited, Virgin Student Limited, Virgin Travelstore Limited, Virgin Ventures, Virgin Wine Online Limited, Virgin Audio Limited, Bluebottle Investments SA, Virgin Money Group Limited, Virgin Fitness SA, Virgin Hotels Group, Ivanco (No.3) Limited, Virgin Performance Limited, Virgin Pulse Holdings LLC, Virgin Sky Investments Limited, Trainline Holdings Limited, Motor Solutions Limited, Virgin Entertainment Global Limited and Silvercode Limited

Notes *(continued)*

29 Purchase of subsidiary undertaking

On 30 January 2004 Virgin Management Limited purchased 77.5% of Body IQ Investments Limited by acquiring existing shares in the company.

	Book and fair value
	£000
Net assets acquired	
Intellectual property	457
Debtor	39
Fixed assets	2
Creditors	(389)
	<hr/>
Total net assets	109
Net assets acquired (77.5%)	85
Goodwill	364
	<hr/>
Consideration	449
	<hr/>
Satisfied by:	
Cash	449
	<hr/>

Notes *(continued)*

30 Ultimate parent undertaking

As at 31 March 2004, the ultimate parent company was Virgin Group Investments Limited, a company registered in the British Virgin Islands.

31 Post balance sheet events

On 18 October 2004, the Company acquired a further 1,993,559 £1 ordinary shares in MS Vehicle Management Limited for a cash consideration of £3 million.

On 16 June 2004, Virgin Management Limited acquired 49 £1 ordinary F shares in Virgin Business Solutions Limited for a cash consideration of £25,000.

On 30 November 2004, Virgin Management Limited agreed to sell its investment in Virgin Life Care Investments Limited (formerly Body IQ Limited) to another group company, the final consideration has not yet been confirmed.