

Barfair Limited

**Directors' report and consolidated
financial statements**

Registered number 3552508

31 January 2000



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Directors' report

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

Principal activities

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 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, a model agency, wholesaling of music products, television production and office printing services.

On 21 May 1999 the company acquired The Virgin Trading Group Limited. The principal trading activity of the group is the distribution and sale of drinks.

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 (1999: £nil).

Significant changes in fixed assets

Movements in the fixed assets of the company are disclosed in notes 9 to 11.

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 £46,000 (9 months to 31 January 1999: £16,000).

Directors' report *(continued)*

Directors and directors' interests

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

Sir Richard Branson (resigned 31 December 2001)
IS Burroughs (resigned 22 November 2001)
GD McCallum

The following directors were appointed after the financial year end:

SR Bowker (appointed 9 January 2001, resigned 30 November 2001)
PCK McCall (appointed 23 October 2001, resigned 21 December 2001)
STM Murphy (appointed 30 November 2001)
WE Whitehorn (appointed 23 January 2002)

The company's ultimate parent company, Virgin Group Investments Limited (formerly Virgin Travel 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 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 as auditors of the company until further notice.

By order of the board


PG Gram
Secretary

120 Campden Hill Road
London
W8 7AR

28 February 2000

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;*
- *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.

Independent auditors' report to the members of Barfair Limited

We have audited the financial statements on pages 5 to 27.

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 2000 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
Chartered Accountants
Registered Auditors

28 February 2002

PO Box 695
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Consolidated profit and loss account
for the year ended 31 January 2000

| | <i>Note</i> | 12 months ended 31 January 2000 £000 | 9 months ended 31 January 1999 £000 |
|--|-------------|---|--|
| Turnover | | | |
| Continuing operations | | 76,090 | 10,018 |
| Less share of associates' turnover | | (17,096) | (3,882) |
| | | <hr/> | <hr/> |
| | | 58,994 | 6,136 |
| Acquisitions | | 28,924 | 8,306 |
| | | <hr/> | <hr/> |
| | | 87,918 | 14,442 |
| Cost of sales | 3 | (48,808) | (10,393) |
| | | <hr/> | <hr/> |
| Gross profit | | 39,110 | 4,049 |
| Distribution costs | | (273) | (164) |
| Administrative expenses | | (178,614) | (18,129) |
| Other operating income | | 1,220 | 330 |
| | | <hr/> | <hr/> |
| Group operating loss | | | |
| Continuing operations | | (121,434) | (7,331) |
| Acquisitions | | (17,123) | (6,583) |
| | | <hr/> | <hr/> |
| | | (138,557) | (13,914) |
| Share of operating profit of associates | 3 | 1,120 | 124 |
| Profit on sale of fixed assets | | 931 | 67 |
| | | <hr/> | <hr/> |
| Total operating loss | | (136,506) | (13,723) |
| Other interest receivable and similar income | 6 | 18,072 | 12,413 |
| Interest payable and similar charges | 7 | (11,668) | (2,893) |
| | | <hr/> | <hr/> |
| Loss on ordinary activities before taxation | 2 | (130,102) | (4,203) |
| Tax on loss on ordinary activities | 8 | (40) | (1,189) |
| | | <hr/> | <hr/> |
| Loss on ordinary activities after taxation | 20 | (130,142) | (5,392) |
| | | <hr/> | <hr/> |

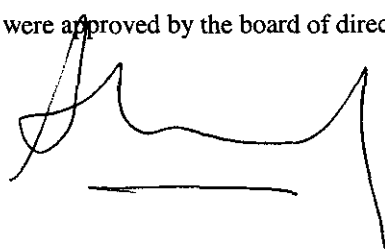
All of the above results arose in respect of continuing activities. There have been no recognised gains or losses other than the loss for the year.

Consolidated balance sheet
at 31 January 2000

| | Note | 2000 | | 1999 | |
|--|------|-----------|-----------|-----------|----------|
| | | £000 | £000 | £000 | £000 |
| Fixed assets | | | | | |
| Intangible assets | 9 | | 31,832 | | 21,287 |
| Tangible assets | 10 | | 22,241 | | 21,374 |
| Investments in associates | 11 | | 5,710 | | 5,952 |
| Other investments | 11 | | - | | 10,124 |
| | | | <hr/> | | <hr/> |
| | | | 59,783 | | 58,737 |
| Current assets | | | | | |
| Stocks | 12 | 10,917 | | 11,870 | |
| Debtors | 13 | 209,300 | | 195,879 | |
| Investments | 14 | 2,212 | | 6,588 | |
| Cash at bank and in hand | | 23,902 | | 16,045 | |
| | | <hr/> | | <hr/> | |
| | | 246,331 | | 230,382 | |
| Creditors: amounts falling due within one year | 15 | (247,495) | | (100,536) | |
| | | <hr/> | | <hr/> | |
| Net current (liabilities)/assets | | | (1,164) | | 129,846 |
| | | | <hr/> | | <hr/> |
| Total assets less current liabilities | | | 58,619 | | 188,583 |
| Creditors: amounts falling due after more than one year | 16 | | (682) | | (386) |
| Provisions for liabilities and charges | 17 | | (3) | | (27) |
| | | | <hr/> | | <hr/> |
| Net assets | | | 57,934 | | 188,170 |
| | | | <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 | | (171,651) | | (41,415) |
| | | | <hr/> | | <hr/> |
| Shareholders' funds - Equity | | | 57,934 | | 188,170 |
| | | | <hr/> | | <hr/> |

These financial statements were approved by the board of directors on ~~28 FEBRUARY 2000~~ and were signed on its behalf by:

STM Murphy
Director



Company balance sheet
at 31 January 2000

| | Note | 2000 £000 | 1999 £000 |
|---|------|------------------|-----------------|
| Fixed assets | | | |
| Investments | 11 | - | 220 |
| Current assets | | | |
| Debtors | 13 | 186,094 | 190,945 |
| Investments | 14 | 1,393 | 1,393 |
| Cash at bank and in hand | | 29,432 | 5,215 |
| | | <u>216,919</u> | <u>197,553</u> |
| Creditors: amounts falling due within one year | 15 | <u>(165,951)</u> | <u>(32,398)</u> |
| Net current assets | | 50,968 | 165,155 |
| Net assets | | <u>50,968</u> | <u>165,375</u> |
| Capital and reserves | | | |
| Called up share capital | 19 | 1 | 1 |
| Share premium | 20 | 175,271 | 175,271 |
| Profit and loss account | 20 | (124,304) | (9,897) |
| Shareholders' funds -- equity | | <u>50,968</u> | <u>165,375</u> |

These financial statements were approved by the board of directors on 28 FEBRUARY 2002 and were signed on its behalf by:

STM Murphy
Director



Consolidated cash flow statement
for the year ended 31 January 2000

| | <i>Notes</i> | Year ended 31 January 2000 £000 | 9 month period ended 31 January 1999 £000 |
|---|--------------|--|---|
| Cash flow from operating activities | 25 | 10,856 | (2,198) |
| Returns on investments and servicing of finance | 26 | (15) | 9,520 |
| Taxation | 26 | (2) | - |
| Capital expenditure and financial investment | 26 | 8,985 | 77 |
| Acquisitions and disposals | 26 | (3,146) | (2,659) |
| | | <hr/> | <hr/> |
| Cash inflow before management of liquid resources and financing | | 16,678 | 4,740 |
| Management of liquid resources | | - | - |
| Financing | 26 | (534) | (1,053) |
| | | <hr/> | <hr/> |
| Increase in cash in the period | | 16,144 | 3,687 |
| | | <hr/> | <hr/> |

Reconciliation of net cash flow to movement in net debt
for the year ended 31 January 2000

| | Year ended 31 January 2000 £000 | 9 month period ended 31 January 1999 £000 |
|--|--|---|
| Increase in cash in the year | 16,144 | 3,687 |
| Cash inflow from increase in debt and lease financing | 534 | 1,053 |
| | <hr/> | <hr/> |
| Change in net debt resulting from cash flows | 16,678 | 4,740 |
| | <hr/> | <hr/> |
| Movement in net debt in the year | 16,678 | 4,740 |
| Net debt at the start of the year | 2,069 | - |
| Finance leases acquired on purchase of subsidiary undertakings | (827) | - |
| Merger adjustment | - | (2,671) |
| | <hr/> | <hr/> |
| Net debt at the end of the year | 17,920 | 2,069 |
| | <hr/> | <hr/> |

Consolidated statement of total recognised gains and losses
for the year ended 31 January 2000

| | Group 12 months ended 31 January 2000 £000 | Company 12 months ended 31 January 2000 £000 | Group 9 months ended 31 January 1999 £000 | Company 9 months ended 31 January 1999 £000 |
|---|---|---|--|--|
| Loss for the financial year | | | | |
| Group | (131,262) | (114,407) | (5,516) | (9,897) |
| Associates | 1,120 | - | 124 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Currency translation differences on net foreign currency investments | (130,142) | (114,407) | (5,392) | (9,897) |
| | (94) | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total recognised gains and losses relating to the year | <hr/> (130,236) | <hr/> (114,407) | <hr/> (5,392) | <hr/> (9,897) |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Reconciliations of movements in shareholders' funds
for the year ended 31 January 2000

| | Group 12 months ended 31 January 2000 £000 | Company 12 months ended 31 January 2000 £000 | Group 9 months ended 31 January 1999 £000 | Company 9 months ended 31 January 1999 £000 |
|---|---|---|--|--|
| Total recognised gains and losses relating to the year | (130,236) | (114,407) | (5,392) | (9,897) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Opening shareholders funds | 188,170 | 165,375 | - | - |
| New share capital subscribed (net of issue costs) | - | - | 175,272 | 175,272 |
| Merger accounting adjustments | - | - | 18,290 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Closing shareholders' funds | <hr/> 57,934 | <hr/> 50,968 | <hr/> 188,170 | <hr/> 165,375 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

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 on a going concern basis having regard to the committed facilities available to the group from a fellow subsidiary as described in note 29, in accordance with applicable Accounting Standards and under the historical cost accounting rules, except as noted below.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 January 2000. 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

Following the investments received as a result of the liquidation of Virgin Travel Investments Limited the company has either disposed of or earmarked for disposal a number of subsidiary companies as a result of reconstruction of the group. Those companies which had not been disposed of at the year end but which are not intended to be held for the long-term have been treated as current asset investments and have not been consolidated.

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.

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

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

Notes (continued)

2 Loss on ordinary activities before taxation

| | 12 months ended 31 January 2000 £000 | 9 months ended 31 January 1999 £000 |
|---|---|--|
| <i>Loss on ordinary activities before taxation is stated</i> | | |
| <i>after charging</i> | | |
| Auditors' remuneration: | | |
| Group - audit | 222 | 164 |
| - fees paid to the auditors and its associates in respect of other services | 170 | 274 |
| Company - audit | 49 | 20 |
| Depreciation and other amounts written off tangible fixed assets: | | |
| Owned | 2,128 | 395 |
| Leased | 43 | 32 |
| Amortisation of goodwill | 1,519 | 269 |
| Impairment of goodwill | 26,615 | - |
| Provision against amounts due from related undertakings | 83,855 | 10,659 |
| Hire of plant and machinery – rentals payable under operating leases | 336 | 194 |
| Hire of other assets – operating leases | 727 | 619 |
| Exchange loss | 3,161 | 24 |
| <i>after crediting</i> | | |
| Profit on sale of tangible fixed assets | 931 | 67 |
| Rent receivable | 786 | 430 |
| Share of Associate profit | 1,120 | 124 |

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 12 months ended 31 January 2000 £'000 | Group operating loss 12 months ended 31 January 2000 £'000 | Turnover 9 months ended 31 January 1999 £'000 | Group operating loss 9 months ended 31 January 1999 £'000 |
|---|--|---|---|--|
| Wholesale and retail | 37,578 | (18,213) | 1,874 | (321) |
| Property | 16,763 | 122 | 5,513 | (338) |
| Clubs and hotels | 7,615 | (57) | 1,290 | (20) |
| Merchandising and event management | 9,875 | 175 | 1,763 | 52 |
| Trademark licencing | 5,530 | 3,797 | 667 | 420 |
| Balloons and airships | 11,853 | (2,115) | 2,926 | 103 |
| Management services and other | 15,800 | (121,146) | 4,291 | (13,686) |
| | 105,014 | (137,437) | 18,324 | (13,790) |
| Less share of associates' revenue/operating profit | (17,096) | (1,120) | (3,882) | (124) |
| | 87,918 | (138,557) | 14,442 | (13,914) |

Management services and other includes provisions against amounts due from related parties and a charge for the impairment of goodwill as described in note 2 above.

Notes (continued)

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

Net assets

| | 2000 £'000 | 1999 £'000 |
|------------------------------------|---------------|---------------|
| Wholesale and retail | 5,867 | (1,873) |
| Property | 26,165 | 26,182 |
| Clubs and Hotels | 12,716 | 12,645 |
| Merchandising and event management | 629 | 545 |
| Trademark licencing | 19,643 | 21,501 |
| Balloons and airships | 7,762 | 12,659 |
| Management services and other | (14,848) | 116,511 |
| | <hr/> | <hr/> |
| | 57,934 | 188,170 |
| | <hr/> | <hr/> |

By geographical market

| | Turnover 12 months ended 31 January 2000 £'000 | Group operating loss 12 months ended 31 January 2000 £'000 | Turnover 9 months ended 31 January 1999 £'000 | Group operating loss 9 months ended 31 January 1999 £'000 |
|---|--|---|---|--|
| UK and Ireland | 80,637 | (135,364) | 15,166 | (14,063) |
| Rest of Europe | 10,973 | (1,015) | 930 | 167 |
| Rest of World | 13,404 | (1,058) | 2,228 | 106 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 105,014 | (137,437) | 18,324 | (13,790) |
| Less share of associates' revenue/operating profit | (17,096) | (1,120) | (3,882) | (124) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 87,918 | (138,557) | 14,442 | (13,914) |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Net assets

| | 2000 £'000 | 1999 £'000 |
|----------------|---------------|---------------|
| UK and Ireland | 40,004 | 173,548 |
| Rest of Europe | 824 | - |
| Rest of World | 17,106 | 14,622 |
| | <hr/> | <hr/> |
| | 57,934 | 188,170 |
| | <hr/> | <hr/> |

The total figures for continuing operations include the following amounts relating to acquisitions: cost of sales £10,254,000 and net operating expenses £35,377,000 (namely administrative expenses £35,614,000 and other operating income £237,000).

Notes (continued)

4 Remuneration of directors

| | 12 months ended 31 January 2000 £000 | 9 months ended 31 January 1999 £000 |
|---|---|--|
| Directors' emoluments | 1,409 | 336 |
| Company contributions to money purchase pension schemes | 19 | 2 |
| | <hr/> | <hr/> |
| | 1,428 | 338 |
| | <hr/> | <hr/> |

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £1,175,000 (1999 : £295,000). No company pension contributions were made on his behalf.

| | Number of directors | |
|--|---------------------------------------|--------------------------------------|
| | 12 months ended 31 January 2000 | 9 months ended 31 January 1999 |
| Retirement benefits are accruing to the following number of directors under: | | |
| Money purchase schemes | 3 | 3 |
| | <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 | |
|-------------------------------|---------------------------------------|--------------------------------------|
| | 12 months ended 31 January 2000 | 9 months ended 31 January 1999 |
| Management and administration | 239 | 57 |
| Selling and distribution | 134 | 27 |
| Operations and other | 100 | 58 |
| | <hr/> | <hr/> |
| | 473 | 142 |
| | <hr/> | <hr/> |

The aggregate payroll costs of these persons were as follows:

| | 12 months ended 31 January 2000 £000 | 9 months ended 31 January 1999 £000 |
|-----------------------|---|--|
| Wages and salaries | 13,601 | 2,528 |
| Social security costs | 1,596 | 206 |
| Other pension costs | 193 | 65 |
| | <hr/> | <hr/> |
| | 15,390 | 2,799 |
| | <hr/> | <hr/> |

Notes (continued)

6 Other interest receivable and similar income

| | 12 months ended 31 January 2000 £000 | 9 months ended 31 January 1999 £000 |
|--|---|--|
| Bank interest | 1,937 | 363 |
| Other interest | 153 | 2,392 |
| Interest receivable from related parties | 15,982 | 9,635 |
| | <hr/> | <hr/> |
| Interest receivable by associates | 18,072 | 12,390 |
| | - | 23 |
| | <hr/> | <hr/> |
| | 18,072 | 12,413 |
| | <hr/> | <hr/> |

7 Interest payable and similar charges

| | 12 months ended 31 January 2000 £000 | 9 months ended 31 January 1999 £000 |
|--|---|--|
| On bank loans and overdrafts | 1,999 | 571 |
| Other interest | 33 | 1,423 |
| Finance charges payable in respect of finance leases and hire purchase contracts | 72 | 45 |
| Interest payable to related parties | 9,564 | 831 |
| | <hr/> | <hr/> |
| Interest payable by associates | 11,668 | 2,870 |
| | - | 23 |
| | <hr/> | <hr/> |
| | 11,668 | 2,893 |
| | <hr/> | <hr/> |

8 Taxation

| | 12 months ended 31 January 2000 £000 | 9 months ended 31 January 1999 £000 |
|---------------------------------------|---|--|
| UK corporation tax at 31% (1999: 31%) | - | 1,159 |
| Share of associates' tax | 38 | 23 |
| Deferred tax | - | (4) |
| Property tax | - | 11 |
| Overseas tax | 2 | - |
| | <hr/> | <hr/> |
| | 40 | 1,189 |
| | <hr/> | <hr/> |

Notes (continued)

9 Intangible fixed assets

| Group | Goodwill £000 | Other assets £000 | Total £000 |
|---------------------------|------------------|----------------------|---------------|
| <i>Cost</i> | | | |
| At 1 February 1999 | 21,556 | - | 21,556 |
| Additions | 38,676 | 3 | 38,679 |
| Impairment | (26,615) | - | (26,615) |
| At 31 January 2000 | 33,617 | 3 | 33,620 |
| <i>Amortisation</i> | | | |
| At 1 February 1999 | 269 | - | 269 |
| Charged in year | 1,518 | 1 | 1,519 |
| At 31 January 2000 | 1,787 | 1 | 1,788 |
| <i>Net book value</i> | | | |
| At 31 January 2000 | 31,830 | 2 | 31,832 |
| At 31 January 1999 | 21,287 | - | 21,287 |

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.

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 1999 | 16,448 | 7,539 | 5,496 | 505 | 29,988 |
| Businesses acquired | - | - | 3,347 | - | 3,347 |
| Additions | 1,012 | 405 | 1,269 | 48 | 2,734 |
| Disposals | (850) | (664) | (1,348) | (468) | (3,330) |
| Exchange differences | 182 | (35) | 9 | - | 156 |
| At 31 January 2000 | 16,792 | 7,245 | 8,773 | 85 | 32,895 |
| <i>Depreciation</i> | | | | | |
| At 1 February 1999 | 1,895 | 4,516 | 1,935 | 268 | 8,614 |
| Businesses acquired | - | - | 1,103 | - | 1,103 |
| Charge for year | 163 | 958 | 1,048 | 2 | 2,171 |
| On disposals | (128) | (443) | (432) | (235) | (1,238) |
| Exchange differences | 16 | (19) | 7 | - | 4 |
| At 31 January 2000 | 1,946 | 5,012 | 3,661 | 35 | 10,654 |
| <i>Net book value</i> | | | | | |
| At 31 January 2000 | 14,846 | 2,233 | 5,112 | 50 | 22,241 |
| At 31 January 1999 | 14,553 | 3,023 | 3,561 | 237 | 21,374 |

Notes (continued)

Tangible fixed assets (continued)

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

| | 2000 £000 | 1999 £000 |
|---|--------------|--------------|
| Net book value | | |
| Plant and equipment | 760 | 776 |
| | <hr/> | <hr/> |
| Depreciation charged in the year | | |
| Plant and equipment | 43 | 32 |
| | <hr/> | <hr/> |

The net book value of land and buildings comprises:

| | 2000 £000 | 1999 £000 |
|-----------------|--------------|--------------|
| Freehold | 14,846 | 13,336 |
| Short leasehold | - | 1,217 |
| | <hr/> | <hr/> |
| | 14,846 | 14,553 |
| | <hr/> | <hr/> |

11 Fixed asset investments

| Group | Interests in associated undertakings (including joint ventures) £000 | Other Investments other than loans £000 | Total £000 |
|---|---|---|---------------|
| Cost | | | |
| At 1 February 1999 | 5,851 | 10,124 | 15,975 |
| Additions | 1,428 | - | 1,428 |
| Disposals | - | (10,124) | (10,124) |
| | <hr/> | <hr/> | <hr/> |
| At 31 January 2000 | 7,279 | - | 7,279 |
| | <hr/> | <hr/> | <hr/> |
| Share of post acquisition reserves | | | |
| Balance at 1 February 1999 | 101 | - | 101 |
| Retained profit for the year | 1,082 | - | 1,082 |
| Amortisation of premium on acquisition | (50) | - | (50) |
| | <hr/> | <hr/> | <hr/> |
| At 31 January 2000 | 1,133 | - | 1,133 |
| | <hr/> | <hr/> | <hr/> |
| Impairments | | | |
| Provision made during year | (2,702) | - | (2,702) |
| | <hr/> | <hr/> | <hr/> |
| Net book value | | | |
| At 31 January 2000 | 5,710 | - | 5,710 |
| | <hr/> | <hr/> | <hr/> |
| At 31 January 1999 | 5,952 | 10,124 | 16,076 |
| | <hr/> | <hr/> | <hr/> |

Notes (continued)

11 Fixed asset investments (continued)

| Company | Shares in group undertaking £000 |
|--------------------|---|
| <i>Cost</i> | |
| At 1 February 1999 | 220 |
| Additions | 49 |
| Provisions | (269) |
| | <hr/> |
| At 31 January 2000 | - |
| | <hr/> |

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

| | Principal activity | Class and percentage of shares held | |
|--|---|---|-------------|
| <i>Subsidiary undertakings</i> | | | |
| Vanson Developments Limited* | Property developer | Ordinary £1 shares | 100% |
| The Virgin Trading Group Limited* | Holding company | Ordinary £1 shares | 100% |
| The Virgin Drinks Company Limited | Wholesaler of Drinks | Ordinary £1 shares | 100% |
| Virgin Management Limited | Investment and management services company | Ordinary 10p shares | 100% |
| Virgin Bride Limited | Bridal services | Ordinary £1 shares | 100% |
| Virgin Enterprises Limited | Licensing of Virgin brand | Ordinary £1 shares | 100% |
| Heaven Limited | Operator of night club and function venues | Ordinary £1 shares | 100% |
| Necker Island (BVI) Limited | Hotel Operator | Ordinary £1 shares | 100% |
| Virgin Airship and Balloon Company Limited | Flying balloons | Ordinary £1 shares | 75% |
| Voltaplace Limited | Investment company | Ordinary £1 shares | 100% |
| <i>Associated undertakings</i> | | | |
| Sound and Media Limited | Wholesaler of records, videos, tapes and compact discs | Ordinary £1 shares Convertible, redeemable £1 preference shares | 50% 100% |
| Storm Model Management Limited | Model agency | Ordinary £1 shares | 50% |
| The Lightships Group | Operation of airships | Partnership | 50% |

* Direct investment held by Barfair Limited

All of the above companies are incorporated in England and Wales except The Lightships Group, which is registered in the United States of America and Necker Island (BVI) Limited, which is registered in the British Virgin Islands.

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

Notes (continued)

12 Stocks

| | Group 2000 £000 | Group 1999 £000 |
|--|-----------------------|-----------------------|
| Raw materials and consumables | 960 | 337 |
| Work in progress – development land and properties | 7,792 | 11,090 |
| Finished goods and goods for resale | 2,165 | 443 |
| | <u>10,917</u> | <u>11,870</u> |

The value of development land and properties shown includes cumulative interest capitalised of £7,926 (1999: £325,407).

13 Debtors

| | Group 2000 £000 | Company 2000 £000 | Group 1999 £000 | Company 1999 £000 |
|--|-----------------------|-------------------------|-----------------------|-------------------------|
| Trade debtors | 12,676 | 674 | 5,741 | - |
| Amounts owed by subsidiary undertakings | - | 123,066 | - | 135,993 |
| Amounts owed by related undertakings (see note 29) | 173,455 | 61,902 | 171,941 | 54,654 |
| Amounts owed by undertakings in which the company has a participating interest | 695 | - | 1,553 | - |
| Other debtors | 18,159 | 452 | 15,173 | 298 |
| Prepayments and accrued income | 4,315 | - | 1,471 | - |
| | <u>209,300</u> | <u>186,094</u> | <u>195,879</u> | <u>190,945</u> |

Included within other debtors is an amount of £19,016 (1999: £48,907) owed by Sir Richard Branson, a director of the company at the year end, to a subsidiary. The maximum due from Sir Richard Branson during the year was £190,996 (1999: £48,907). 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 2000 £000 | Company 2000 £000 | Group 1999 £000 | Company 1999 £000 |
|-----------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Investments held for resale | 2,212 | 1,393 | 4,716 | 1,393 |
| Other investments | - | - | 1,872 | - |
| | <u>2,212</u> | <u>1,393</u> | <u>6,588</u> | <u>1,393</u> |

Notes (continued)

15 Creditors: amounts falling due within one year

| | Group 2000 £000 | Company 2000 £000 | Group 1999 £000 | Company 1999 £000 |
|---|-----------------------|-------------------------|-----------------------|-------------------------|
| Bank loans and overdrafts | 5,155 | - | 13,442 | - |
| Obligations under finance leases and hire Purchase contracts (see note 16) | 349 | - | 148 | - |
| Trade creditors | 10,224 | - | 10,477 | - |
| Amounts owed to related undertakings (see note 29) | 179,217 | 164,572 | 34,767 | 31,236 |
| Amounts owed to undertakings in which the company has a participating interest | 29 | - | - | - |
| Taxation and social security | 7,925 | 1,159 | 3,908 | 1,159 |
| Other creditors | 24,858 | 100 | 29,532 | 1 |
| Accruals and deferred income | 19,738 | 120 | 8,262 | 2 |
| | <u>247,495</u> | <u>165,951</u> | <u>100,536</u> | <u>32,398</u> |

All bank loans and overdrafts are due within one year.

£10,000,000 included within related undertakings was secured on the assets of Necker Island (BVI) Limited. This loan has been repaid since the year-end.

16 Creditors: amounts falling due after more than one year

| | Group 2000 £000 | Group 1999 £000 |
|---|-----------------------|-----------------------|
| Obligations under finance leases and hire purchase contracts | 478 | 386 |
| Other creditors | 204 | - |
| | <u>682</u> | <u>386</u> |

The maturity of obligations under finance leases and hire purchase contracts is as follows:

| | Group 2000 £000 | Group 1999 £000 |
|------------------------------|-----------------------|-----------------------|
| Within one year | 349 | 148 |
| In the second to fifth years | 478 | 386 |
| | <u>827</u> | <u>534</u> |

Notes (continued)

17 Provisions for liabilities and charges

| | Taxation including deferred taxation £000 | Other provisions £000 | Total £000 |
|----------------------|---|-----------------------------|---------------|
| Group | | | |
| At 1 February 1999 | 3 | 24 | 27 |
| Release for the year | - | (24) | (24) |
| | <hr/> | <hr/> | <hr/> |
| At 31 January 2000 | 3 | - | 3 |
| | <hr/> | <hr/> | <hr/> |

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

| | Provided £000 | Unprovided £000 |
|---|------------------|--------------------|
| Difference between accumulated depreciation and Amortisation and capital allowances At 31 January 1999 and 2000 | 3 | - |
| | <hr/> | <hr/> |

Notes (continued)

18 Acquisition of subsidiary undertaking

On 21 May 1999 the company acquired all of the shares of The Virgin Trading Group Limited for £50,000 together with the assignment of a loan of £7,000,000 due to a related party. The resulting goodwill was capitalised and will be written off over 20 years.

| | Book and fair value £000 |
|--|--------------------------------|
| Fixed assets | |
| Tangible | 2,244 |
| Current assets | |
| Stock | 4,141 |
| Debtors | 25,336 |
| Cash | 1,908 |
| Total assets | <u>33,629</u> |
| Provisions | (84) |
| Creditors (including £4,554,000 overdraft) | <u>(78,660)</u> |
| Total liabilities | <u>(78,744)</u> |
| Net liabilities | (45,115) |
| Loan acquired | 7,000 |
| Goodwill | 38,615 |
| Purchase consideration and costs of acquisition | <u>500</u> |

The goodwill on acquisition was revalued down to its fair value of £12,000,000, the difference being charged to the profit and loss account.

The acquired undertaking and its subsidiaries made a loss of £5,399,000 from the beginning of its financial period to the date of acquisition.

Notes (continued)

19 Called up share capital

| | 31 January 2000 £000 | 31 January 1999 £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 |
|----------------------------|-----------------------|------------------------|---------------------------------------|
| Balance at 1 February 1999 | 175,271 | 54,313 | (41,415) |
| Retained loss for the year | - | - | (130,142) |
| Exchange losses | - | - | (94) |
| | <u>175,271</u> | <u>54,313</u> | <u>(171,651)</u> |
| At 31 January 2000 | <u>175,271</u> | <u>54,313</u> | <u>(171,651)</u> |

| Company | Share premium £000 | Profit and loss account £000 |
|----------------------------|-----------------------|---------------------------------------|
| Balance at 1 February 1999 | 175,271 | (9,897) |
| Retained loss for the year | - | (114,407) |
| | <u>175,271</u> | <u>(124,304)</u> |
| At 31 January 2000 | <u>175,271</u> | <u>(124,304)</u> |

Notes (continued)

21 Minority interests

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.

22 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 £6,000,000, repayable on demand and was party to a guarantee and set off arrangement with a number of subsidiary undertakings.

23 Commitments

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

| | 2000 | | 1999 | |
|--|-------------------------------|---------------|-------------------------------|---------------|
| Group | Land and buildings £000 | Other £000 | Land and Buildings £000 | Other £000 |
| Operating leases which expire: | | | | |
| Within one year | 9 | - | - | 22 |
| In the second to fifth years inclusive | 581 | 97 | 79 | 139 |
| Over five years | 334 | - | 513 | - |
| | <u>924</u> | <u>97</u> | <u>592</u> | <u>161</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 £193,000 (1999: 9 months £65,000).

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

| | 12 months ended 31 January 2000 £000 | 9 months ended 31 January 1999 £000 |
|--|---|--|
| Group operating loss | (138,557) | (13,914) |
| Depreciation, amortisation and impairment charges | 33,057 | 696 |
| Provision against bad debts | 83,855 | - |
| Decrease in stocks | 5,094 | 614 |
| Increase in debtors | (56,022) | (17,005) |
| Decrease in current asset investments | 4,376 | - |
| Increase in creditors | 76,000 | 27,403 |
| Increase in provisions | (108) | - |
| Foreign exchange | 3,161 | 8 |
| Net cash inflow/(outflow) from operating activities | <u>10,856</u> | <u>(2,198)</u> |

Notes *(continued)*

26 Analysis of cash flows

| | 12 months ended 31 January 2000 £000 | 9 months ended 31 January 1999 £000 |
|---|--|---|
| Returns on investment and servicing of finance | | |
| Interest received | 2,090 | 12,390 |
| Interest paid | (2,033) | (2,825) |
| Interest element of finance lease rental payments | (72) | (45) |
| | <u>(15)</u> | <u>9,520</u> |
| Taxation | | |
| Overseas tax paid | (2) | - |
| | <u>(2)</u> | <u>-</u> |
| Capital expenditure and financial investment | | |
| Purchase of tangible fixed assets | (2,734) | (1,280) |
| Purchase of investment in associate | (1,428) | - |
| Sale of tangible fixed assets | 3,023 | 930 |
| Sale of other investments | 10,124 | 427 |
| | <u>8,985</u> | <u>77</u> |
| Acquisitions and disposals | | |
| Purchase of subsidiary undertaking | (500) | - |
| Net overdrafts acquired with subsidiary | (2,646) | (2,659) |
| | <u>(3,146)</u> | <u>(2,659)</u> |
| Financing | | |
| Debt due after more than one year: | | |
| Repayment of loans | - | (950) |
| Capital element of finance lease rental payments | (534) | (103) |
| | <u>(534)</u> | <u>(1,053)</u> |

Notes (continued)

27 Analysis of net debt

| | At 1 February 1999 | Cash flow | Acquisition (excluding cash and overdrafts) | At 31 January 2000 |
|-----------------------|-----------------------|----------------------|--|-----------------------|
| | £000 | £000 | £000 | £000 |
| Cash in hand, at bank | 16,045 | 5,949 | 1,908 | 23,902 |
| Overdrafts | (13,442) | 12,841 | (4,554) | (5,155) |
| | <u>2,603</u> | <u>18,790</u> | <u>(2,646)</u> | <u>18,747</u> |
| Finance leases | (534) | 534 | (827) | (827) |
| Total | <u><u>2,069</u></u> | <u><u>19,324</u></u> | <u><u>(3,473)</u></u> | <u><u>17,920</u></u> |

28 Purchase of subsidiary undertaking

The Virgin Trading Group Limited and its subsidiaries contributed £(17,317,000) to the group's net operating cash flows, received £nil in respect of net returns on investments and servicing of finance, paid £nil in respect of taxation and utilised £nil for capital expenditure.

29 Related party disclosures

At 31 January 2000 the company's ultimate parent company was Virgin Group Investments Limited (formerly Virgin Travel Limited) whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Investments Limited. The principal beneficiaries of those trusts are 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 2000 £000 | Parent and fellow subsidiary undertakings 31 January 2000 £000 | Other related parties 31 January 2000 £000 |
|----------------------------------|--|---|---|
| Turnover | - | 1,615 | 10,589 |
| Administrative expenses | - | - | 251 |
| Other income | - | 46 | 212 |
| Creditors | 29 | 130,492 | 38,726 |
| Debtors | 695 | 58,228 | 115,227 |
| Interest payable | - | 8,765 | 798 |
| Interest receivable | - | 14,392 | 1,590 |
| Amounts provided against debtors | - | - | 83,855 |

Intercompany funding balances due to and from parent, fellow subsidiary and associated undertakings attracted interest at a rate of 1.5% above the base rate of Lloyds Bank Plc. Intercompany funding balances due to and from related undertakings attracted interest at a rate of 2.5% above the base rate of Lloyds Bank Plc.

Following the year end a fellow subsidiary company has made available a committed facility of £50m for a period ending 31 December 2003. Interest on this facility is at 2% above UK 1-month LIBOR and the amount outstanding at 31 January 2000 was £nil.

Notes *(continued)*

29 Related party disclosures *(continued)*

The associated undertakings with whom the group transacted during the year were Rodney Fitch and Company Limited, Storm Model Management Limited, Sound and Media Limited, Kinko's Limited, Rapido TV Limited, Balloons Over India Limited, Keelex 195 Limited and The Lightship Group.

The parent and fellow subsidiaries with whom the group transacted or had committed facilities during the year were Virgin Group Investments Limited, Virgin Investments SA, Virgin Travel Group Limited, Virgin Atlantic Airways Limited and Virgin Express SA.

The related party undertakings with whom the group transacted during the year were V2 Music Limited, Virgin Clothing Limited, Virgin Cinemas Limited, Virgin Rail Group Limited, Virgin Hotels Limited, Virgin Radio Limited, Virgin Retail Group Limited, Virgin Sound and Vision Limited, Virgin Publishing Limited, Rushes Post Production Limited, West One TV Limited, Virgin Net Limited, Virgin Vie Limited, Virgin Direct Limited, Virgin Direct Personal Finance Limited, VDL Holdings Limited, Air Crewing Limited, McCarthy Corporation Plc, Virgin Retail Europe Limited, Virgin Retail Limited, Virgin Retail Group (UK) Limited, Ginger Media Group Limited, Virgin Media Group Limited, Virgin Entertainment Group Limited, Virgin Digital Studios Limited, Virgin Hotels Group Limited, Virgin Active Limited, Virgin Mobile Telecoms Limited and Virgin Student Limited.

30 Ultimate parent undertaking

As at 31 January 2000, the ultimate parent company was Virgin Group Investments Limited (formerly Virgin Travel Limited), a company registered in the British Virgin Islands.