Virgin.com Limited

Directors' report and financial statements

Registered number 3735629

31 March 2004

Contents

Directors' report	1
Statement of directors' responsibilities	2
Independent auditors' report to the members of Virgin.com Limited	3
Profit and loss account	4
Balance sheet	5
Cash flow statement	6
Reconciliation of net cash flow to movement in net funds	6
Notes	7

Directors' report

The directors present their report and the audited financial statements for the 14 month period ended 31 March 2004. The comparatives are for a year.

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

Principal activities

The principal activity of the Company is the development and management of Virgin Group Websites to cross sell the services of companies using the Virgin name and offer a common e-commerce platform for Virgin internet companies.

Review

The results for the period are set out on page 4 of the financial statements and the loss for the period of £3,401,870 (year ended 31 January 2003: £2,838,792) has been transferred to reserves.

Proposed dividend

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

Directors and their interests

The directors of the Company during the period and their interests in the shares of the Company as recorded in the register of directors' interests were as follows:

R C N Branson (Resigned 15 August 2003)

W E Whitehorn

G D McCallum

S S Burridge (Appointed 8 March 2004)

None of the directors who held office at the end of the financial period have any disclosable interest in the shares of the Company or any other group company.

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

P G Gram
Company Secretary

120 Campden Hill Road
London
W8 7AR
14 December 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and 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 company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Virgin.com Limited

We have audited the financial statements on pages 4 to 16.

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 2, 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 company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2004 and of its loss for the 14 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB
15 December 2004

Profit and loss account

for the14 month period ended 31 March 2004

	Note	14 month period ended 31 March 2004 £	Year ended 31 January 2003 £
Turnover	*1*	**957,900**	768,385
Cost of sales		-	-
Gross profit		**957,900**	768,385
Administrative expenses		**(1,590,364)**	(1,393,453)
Other operating income		-	70,000
Operating loss		**(632,464)**	(555,068)
Loss on disposal of fixed assets		-	-
Interest receivable and similar income	*5*	**119,774**	99,396
Interest payable and similar charges	*6*	**(2,889,180)**	(2,383,120)
Loss on ordinary activities before taxation	*2*	**(3,401,870)**	(2,838,792)
Tax on loss on ordinary activities	*7*	-	-
Retained loss for the period	*13*	**(3,401,870)**	(2,838,792)

There were no recognised gains or losses in the period other than those shown above, which were derived from continuing operations.

The notes on pages 7 to 16 form part of these financial statements.

Balance sheet
At 31 March 2004

	Note	31 March 2004 £	31 January 2003 £
Fixed assets			
Tangible assets	8	**453,641**	893,129
Investments	9	**-**	-
Current assets			
Debtors	10	**987,870**	806,281
Cash at bank		**546,698**	18,123
		1,534,568	824,404
Creditors: amounts falling due within one year	11	**(43,167,311)**	(39,494,766)
Net current liabilities		**(41,632,743)**	(38,670,362)
Net liabilities		**(41,179,102)**	(37,777,233)
Capital and reserves			
Called up share capital	12	**2**	2
Profit and loss account	13	**(41,179,104)**	(37,777,235)
Equity shareholders' deficit	14	**(41,179,102)**	(37,777,233)

The notes on pages 7 to 16 form part of these financial statements.

These financial statements were approved by the board of directors on 14 December 2004 and were signed on its behalf by:

W E Whitehorn
Director

Cash flow statement
for the 14 months ended 31 March 2004

	Note	14 month period ended 31 March 2004 £	Year ended 31 January 2003 £
Cash flow from operating activities	*15*	**(563,398)**	(6,910)
Returns on investments and servicing of finance	*16*	**1,672**	(14)
Capital expenditure	*16*	**(4,698)**	(9,168)
Cash flow before financing		**(566,424)**	(16,092)
Financing	*15*	**1,095,000**	-
Increase/(decrease) in cash in the period	*17*	**528,574**	(16,092)

Reconciliation of net cash flow to movement in net funds

	Note	14 month period ended 31 March 2004 £	Year ended 31 January 2003 £
Increase/(decrease) in cash in the period	*17*	**528,574**	(16,092)
Increase in group loan		**(1,095,000)**	
		(566,426)	(16,092)
Reclassification of group debt		**(39,382,560)**	-
Non cash movements		**(2,275,204)**	-
Movement in net debt in the period	*17*	**(42,224,190)**	(16,092)
Net funds at the start of the period		**18,123**	34,215
Net funds at the end of the period	*17*	**(42,206,067)**	18,123

The notes on pages 7 to 16 form part of these financial statements.

Notes

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

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.

The company is exempt by virtue of s248 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

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.

Investments

Investments in subsidiaries are shown at cost less amounts written off.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

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:

Computer hardware and software	-	50% per annum
Furniture, fittings and office equipment	-	33% per annum
Leasehold improvements	-	over lease term

Pension scheme

The Company and its UK subsidiary undertakings are members of a defined contribution pension scheme, operated by Virgin Management Limited, a related undertaking. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Turnover

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

Notes *(continued)*

2 Loss on ordinary activities before taxation

	2004	2003
	£	£
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration	**8,000**	9,150
Depreciation and other amounts written off tangible fixed assets	**444,186**	265,193
Hire of other assets – operating leases	**1,452**	3,773
Provision against group balances receivable	**118,756**	350,713

3 Remuneration of directors'

Directors did not receive any remuneration during the period for services to the Company (2003: £Nil).

4 Staff numbers and costs

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

	2004	2003
	£	£
Operational	**3**	5
	3	5

The aggregate payroll costs of these persons were as follows:

	14 month period ended 31 March 2004	Year ended 31 January 2003
	£	£
Wages and salaries	**157,972**	230,873
Social security costs	**27,147**	18,986
Other pension costs	**9,904**	6,070
	195,023	255,929

Notes *(continued)*

5 Other interest receivable and similar income

	14 month period ended 31 March 2004	Year ended 31 January 2003
	£	£
Bank interest	**1,794**	1,056
On group loans	**117,979**	98,340
	119,774	99,396

6 Interest payable and similar charges

	14 month period ended 31 March 2004	Year ended 31 January 2003
	£	£
On group loans	**2,889,058**	2,382,050
Other	**122**	1,070
	2,889,180	2,383,120

Notes *(continued)*

7 Taxation

There was no tax charge in the current or prior period.

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2003: lower) 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	Year ended 31 January 2003
	£	£
Current tax reconciliation		
Loss on ordinary activities before tax	**(3,401,870)**	(2,838,792)
Current tax at 30% (2003: 30%)	**(1,020,561)**	(851,638)
Effects of:		
Expenses not deductible for tax purposes	**97,010**	126,535
Depreciation for period in excess of capital allowances	**146,956**	(256,214)
Unrelieved corporation tax losses	**776,595**	981,317
Total current tax charge (see above)	**-**	-

Factors that may affect future tax charges

As at 31 March 2004 the company had tax losses available to carry forward of approximately £19,726,366 (2003: £17,154,683) 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 the 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 difference can be deducted.

Notes *(continued)*

8 Fixed assets

	Computer equipment £	Furniture & fittings £	Office equipment £	Leasehold improvements £	Total £
Cost					
At beginning of period	76,942	602,404	100,405	928,876	1,708,627
Additions	4,698	-	-	-	4,698
At end of period	81,640	602,404	100,405	928,876	1,713,325
Depreciation					
At beginning of period	52,990	385,338	67,255	309,915	815,498
Charge for period	21,495	217,066	33,150	172,475	444,186
At end of period	74,485	602,404	100,405	482,390	1,259,684
Net book value					
At 31 March 2004	**7,155**	**-**	**-**	**446,486**	**453,641**
At 31 January 2003	23,952	217,066	33,150	618,961	893,129

Notes *(continued)*

9 Fixed asset investments

	Investment in subsidiaries £
Cost	
At 31 January 2003 and 31 March 2004	550,001
Provisions	
At 31 January 2003 and 31 March 2004	(550,001)
Net book value	
At 31 January 2003 and 31 March 2004	-

The companies in which the Company's interest at 31 March 2004 is more than 20% are as follows:

	Country of Registration	Principal Activity	Holding %	No. of Shares	Type of share
Subsidiary undertakings					
Package Holidays Direct Limited	England and Wales	Travel agency	100	300,000	£1 ordinary shares
				250,000	5% non cumulative preference £1 shares
Virgin Travelstore Limited	England and Wales	Travel agency	100	1	£1 ordinary share

10 Debtors

	31 March 2004	31 January 2003 £
Amounts owed by group undertakings	**977,206**	799,255
Other debtors	**10,664**	6,476
Prepayments	-	550
	987,870	806,281

Notes *(continued)*

11 Creditors: amounts falling due within one year

	31 March 2004 £	31 January 2003 £
Trade creditors	**356,055**	68,055
Amounts owed to fellow subsidiary undertakings	**42,685,846**	39,315,641
Amounts owed to related undertakings	**94,243**	81,808
Accruals	**31,167**	29,262
	43,167,311	39,494,766

12 Called up share capital

	31 March 2004 £	31 January 2003 £
Authorised		
1,000 Ordinary shares of £1 each	**1,000**	1,000
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	**2**	2

13 Reserves

	Profit and loss account £
At beginning of period	**(37,777,235)**
Retained loss for the period	**(3,401,870)**
At end of period	**(41,179,105)**

Notes *(continued)*

14 Reconciliation of equity shareholders' deficit

	31 March 2004 £	31 January 2003 £
Loss for the financial period	**(3,401,870)**	(2,838,792)
Opening equity shareholders' deficit	**(37,777,233)**	(34,938,441)
Closing equity shareholders' deficit	**(41,179,103)**	(37,777,233)

15 Reconciliation of operating loss to net cash flow from operating activities

	14 month period ended 31 March 2004 £	Year ended 31 January 2003 £
Operating loss	**(632,464)**	(555,068)
Depreciation charges	**444,186**	265,193
(Increase)/decrease in debtors	**(63,609)**	(338,125)
Increase in creditors	**(311,511)**	621,090
Net cash (outflow)/inflow from operating activities	**(563,398)**	(6,910)

16 Analysis of cash flows

	14 month period ended 31 March 2004 £	Year ended 31 January 2003 £
Returns on investment and servicing of finance		
Interest received	**1,794**	1,056
Interest paid	**(122)**	(1,070)
	1,672	(14)
Capital expenditure		
Purchase of tangible fixed assets	**(4,698)**	(9,168)
Financing		
Increase in group loans	**1,095,000**	-

Notes *(continued)*

17 Analysis of net funds

	At beginning of period	Cash flow	Non cash	Reclassification	At end of period
	£	£	£	£	£
Cash at bank	18,123	528,574	-	-	546,697
Debt		(1,095,000)	(2,275,204)	(39,382,560)	(42,752,764)
	18,123	(566,426)	(2,275,204)	(39,382,560)	(42,206,067)

18 Related party disclosures

At 31 March 2004 the Company's ultimate parent undertaking 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 are considered to give rise to related party disclosures under Financial Reporting Standard No. 8.

	Fellow subsidiary undertaking		Subsidiary undertakings		Related undertakings	
	2004	2003	**2004**	2003	**2004**	2003
	£	£	**£**	£	**£**	£
Debtors	-	17,971	**15,190,051**	15,190,147	**2,542,227**	1,477,454
Provision	-	-	**(15,190,051)**	(15,189,275)	**(1,565,021)**	(1,447,042)
Creditors	**42,685,846**	39,315,641	-	-	**94,243**	81,808
Interest payable	**2,889,058**	2,382,050	-	-	-	-
Interest receivable	-	-	-	-	**117,979**	98,340
Turnover	-	-	-	-	**957,900**	768,385
Administration expenses	-	-	-	-	**46,824**	-

The fellow subsidiary undertakings with which the Company transacted during the period were Barfair Limited, Ivanco (No1) Limited and Virgin Wine Online Limited.

The subsidiary undertaking with which the Company transacted during the period was Virgin Travelstore Limited.

The group related undertakings with which the Company transacted during the period were Barfair Limited, Ivanco (No1) Limited, Worldwide Travel of East Anglia Limited, Virgin Enterprises Limited, Virgin Limobike Limited, Virgin Mobile Telecoms Limited, Voyager Group Limited, Virgin Megastore Holdings Limited, Virgin Student Limited, Virgin Management Limited, Virgin Net Limited, Trainline.com Limited, Virgin Cars Limited, Virgin Travel Group Limited and Virgin Wine Online Limited.

Interest charged on the creditor balance from fellow subsidiary undertaking, Barfair Limited, is 2.5% over 3 month LIBOR, and from fellow subsidiary undertaking, Ivanco (No 1) Limited, is 2.5% over base rate and 2.5% over 3 month LIBOR.

Interest receivable on the debtor balance from related undertaking, Virgin Student Limited, is 3% over 3 month LIBOR.

All other balances do not attract interest.

Notes *(continued)*

19 Ultimate parent company

At 31 March 2004, the Company's ultimate parent undertaking was Virgin Group Investments Limited, a Company incorporated in the British Virgin Islands.