Package Holidays Direct Limited

Directors' report and financial statements

Registered number 3979318

31 March 2004

Contents

Directors' report

The directors present their report and the audited financial statements for the 11 month period ended 31 March 2004.

During the year the Company changed its year end from 30 April to 31 March.

Principal activities

The principal activity of the company is the leasing of property and assets.

Business review

The results for the period are set out on page 4 of the financial statements and the loss for the 11 month period of £490,026 (year ended 30 April 2003: £1,713,696) 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 who held office during the period were as follows:

S M L Parden
J E M Bullock

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 Gram

Peter Gram
Company Secretary

120 Campden Hill Road
London W8 7AR
15/11 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit 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.

Report of the independent auditors, KPMG LLP, to the members of Package Holidays Direct Limited

We have audited the financial statements on pages 4 to 14.

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 11 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
25 November 2004

Profit and loss account
for the period ended 31 March 2004

	Note	**11 month period ended 31 March 2004 £**	**Year ended 30 April 2003 £**
Turnover	*1*	**-**	12,000
Gross profit		**-**	12,000
Administrative expenses		**(490,190)**	(1,713,366)
Operating loss		**(490,190)**	(1,701,366)
Other interest receivable and similar income	*5*	**448**	369
Interest payable and similar charges	*6*	**(284)**	(12,699)
Loss on ordinary activities before taxation	*2*	**(490,026)**	(1,713,696)
Tax on loss on ordinary activities	*7*	**-**	-
Retained loss for the period	*13*	**(490,026)**	(1,713,696)

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

The notes on pages 7 to 14 form part of these financial statements.

Balance sheet
at 31 March 2004

	Note	31 March 2004 £	30 April 2003 £
Fixed assets			
Tangible assets	8	-	285,415
Current assets			
Debtors	9	**92,859**	70,277
Cash at bank and in hand		-	7,676
		92,859	77,953
Creditors: amounts falling due within one year	10	**(4,088,177)**	(3,620,182)
Net current liabilities		**(3,995,318)**	(3,542,229)
Total assets less current liabilities		**(3,995,318)**	(3,256,814)
Provisions for liabilities and charges	11	**(566,522)**	(815,000)
Net liabilities		**(4,561,840)**	(4,071,814)
Capital and reserves			
Called up share capital	12	**550,000**	550,000
Profit and loss account	13	**(5,111,840)**	(4,621,814)
		(4,561,840)	(4,071,814)
Shareholders' deficit			
Equity		**(4,811,840)**	(4,321,814)
Non-equity		**250,000**	250,000
	14	**(4,561,840)**	(4,071,814)

The notes on pages 7 to 14 form part of these financial statements.

These financial statements were approved by the board of directors on 15/11/04 and were signed on its behalf by:

S Parden

Susannah Parden
Director

Cash flow statement

for the period ended 31 March 2004

	Note	11 month period ended 31 March 2004 £	Year ended 30 April 2003 £
Cash flow from operating activities	*15*	**(454,253)**	228,868
Returns on investments and servicing of finance	*16*	**164**	(12,330)
Net cash (outflow)/inflow		**(454,089)**	216,538
Finance	*16*	**439,998**	(207,092)
(Decrease)/increase in cash in the period		**(14,091)**	9,446

Reconciliation of net cash flow to movement in net debt

for the period ended 31 March 2004

	Note	11 month period ended 31 March 2004 £	Year ended 30 April 2003 £
(Decrease)/increase in cash in the period	*17*	**(14,091)**	9,446
Finance leases paid in the period	*17*	**40,313**	207,092
Group loan increased		**(480,311)**	-
		(454,089)	216,538
Reclassification of group debt		**(3,573,013)**	-
Movement in net debt in the period	*17*	**(4,027,102)**	216,538
Net debt at the start of the period		**(32,637)**	(249,175)
Net debt at the end of the period	*17*	**(4,059,739)**	(32,637)

The notes on pages 7 to 14 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 accounting

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

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.

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:

Fixtures, fittings and equipment - 2 - 10 years

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 on a straight line basis over the period of the lease.

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 customers.

Notes *(continued)*

2 Loss on ordinary activities before taxation

	11 month period ended 31 March 2004 £	Year ended 30 April 2003 £
Loss on ordinary activities before taxation is stated after charging:		
Depreciation and other amounts written off tangible fixed assets:		
Owned	**121,158**	216,783
Leased	**-**	192,363
Charge for impairment	**164,257**	32,060
Hire of land and buildings - rentals payable under operating leases	**311,478**	352,000
Auditors remuneration	**3,600**	6,000
(Utilised)/provided against onerous contracts	**(248,478)**	815,000

3 Remuneration of directors

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

4 Staff numbers and costs

The Company did not have any employees other than the directors of the Company for the current or previous period.

5 Other interest receivable and similar income

	11 month period ended 31 March 2004 £	Year ended 30 April 2003 £
Bank interest receivable	**448**	369

6 Interest payable and similar charges

	11 month period ended 31 March 2004 £	Year ended 30 April 2003 £
On bank loans and overdrafts	**112**	139
Finance charges payable in respect of finance leases and hire purchase contracts	**172**	12,560
	284	12,699

Notes *(continued)*

7 Taxation

The Company has no charge for corporation tax due to the losses incurred in the period (2003: £nil).

Factors affecting the tax charge for the current period

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

	11 month Period ended 31 March 2004 £	**Year ended 30 April 2003 £**
Current tax reconciliation		
Loss on ordinary activities before tax	**(490,026)**	(1,713,696)
Current tax at 30% (2003: 30%)	**(147,008)**	(514,108)
Effects of:		
Expenses not deductible for tax purposes	**-**	210
Depreciation for period in excess of capital allowances	**85,624**	65,035
Tax losses not utilised or recognised	**61,384**	448,863
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 £4,654,000 (2003: £4,310,815) 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 differences can be deducted.

Notes *(continued)*

8 Tangible fixed assets

	Fixtures, fittings and equipment (Owned) £	Fixtures, fittings and equipment (Leased) £	Total £
Cost			
At beginning of period	830,500	577,088	1,407,588
Disposals	-	(577,088)	(577,088)
	830,500	-	830,500
Depreciation			
At beginning of period	545,085	577,088	1,122,173
Charge for period	121,158	-	121,158
Impairment	164,257		164,257
On disposals	-	(577,088)	(577,088)
At end of period	830,500	-	830,500
Net book value			
At 31 March 2004	-	-	-
At 30 April 2003	285,415	-	285,415

9 Debtors

	31 March 2004 £	30 April 2003 £
Other debtors	**36,337**	22,277
Prepayments	**56,522**	48,000
	92,859	70,277

Notes *(continued)*

10 Creditors: amounts falling due within one year

	31 March 2004 £	30 April 2003 £
Overdraft	**6,415**	-
Obligations under finance leases and hire purchase contracts	-	40,313
Amounts owed to fellow subsidiary undertakings	**2,313,578**	2,359,269
Amounts owed to related undertakings	**1,139,690**	615,893
Amounts owed to parent undertaking	**600,055**	600,055
Other creditors	**24,839**	2
Accruals	**3,600**	4,650
	4,088,177	3,620,182

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

	31 March 2004 £	30 April 2003 £
Within one year	-	40,485
In the second to fifth years	-	-
Over five years	-	-
	-	40,485
Less future finance charges	-	(172)
	-	40,313

11 Provisions for liabilities and charges

	Other Provisions
At beginning of period	815,000
Utilised during year	(248,478)
At end of period	**566,522**

Provision has been made during the year for onerous leases.

Notes *(continued)*

12 Called up share capital

	31 March 2004 £	30 April 2003 £
Authorised		
Equity: 1,000,000 Ordinary shares of £1 each	**1,000,000**	1,000,000
Non-equity: 500,000 5% non cumulative preference shares of £1 each	**500,000**	500,000
	1,500,000	1,500,000
Allotted and called up		
Equity: 300,000 Ordinary shares of £1 each	**300,000**	300,000
Non-equity 250,000 5% non cumulative preference shares of £1 each	**250,000**	250,000
	550,000	550,000

The preference shares are redeemable on 31 December 2004 at par. On a winding up, they would rank behind ordinary shares and would be entitled to a sum equal to the paid up share capital and any accrued preference dividend. They carry no voting rights.

13 Reserves

	Profit and loss account 2004 £
At beginning of period	**(4,621,814)**
Loss for the period	**(490,026)**
At end of period	**(5,111,840)**

14 Reconciliation of shareholders' deficit

	Non-equity 31 March 2004 £	Equity 31 March 2004 £	Total 31 March 2004 £	Non-equity 30 April 2003 £	Equity 30 April 2003 £	Total 30 April 2003 £
Loss for the financial period	**-**	**(490,026)**	**(490,026)**	-	(1,713,696)	(1,713,696)
Opening shareholders' deficit	**250,000**	**(4,321,814)**	**(4,071,814)**	250,000	(2,608,118)	(2,358,118)
Closing shareholders' deficit	**250,000**	**(4,811,840)**	**(4,561,840)**	250,000	(4,321,814)	(4,071,814)

Notes *(continued)*

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

	31 March 2004 £	30 April 2003 £
Operating loss	**(490,190)**	(1,701,366)
Depreciation charges	**121,158**	409,146
Impairment charges	**164,257**	32,060
(Increase)/decrease in debtors	**(22,582)**	5,485
Increase in creditors	**21,582**	668,543
(Decrease)/increase in provisions	**(248,478)**	815,000
Net cash (outflow)/inflow from operating activities	**(454,253)**	228,868

16 Analysis of cash flows

	31 March 2004 £	30 April 2003 £
Returns on investment and servicing of finance		
Interest receivable	**448**	369
Interest on bank overdraft	**(112)**	(139)
Interest element of finance lease rental payments	**(172)**	(12,560)
	164	(12,330)
Financing		
Capital element of finance lease rental payments	**(40,313)**	(207,092)
Group loan	**480,311**	-
	439,998	(207,092)

17 Analysis of net debt

	At beginning of period £	Cash flow £	Reclassification £	At end of period £
Cash at bank	7,676	(7,676)	-	-
Overdraft	-	(6,415)	-	**(6,415)**
	7,676	(14,091)	-	**(6,415)**
Debt		(480,311)	(3,573,013)	**(4,053,324)**
Finance lease	(40,313)	40,313	-	-
	(32,637)	(454,089)	(3,573,013)	**(4,059,739)**

Notes *(continued)*

18 Commitments

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

	Land and buildings 11 month period ended 31 March 2004 £	Land and buildings Year ended 30 April 2003 £
Operating leases which expire:		
In the second to fifth years inclusive	**320,000**	320,000

19 Related party balances and transactions

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.

At the period end, the Company had the following amounts outstanding with related parties:

	Fellow subsidiary undertaking		Related undertakings		Parent undertaking	
	31 March 2004 £	30 April 2003 £	31 March 2004 £	30 April 2003 £	31 March 2004 £	30 April 2003 £
Creditors	**2,313,578**	2,359,269	**1,139,690**	615,893	**600,055**	600,055
Administration charges	**-**	-	**6,337**	-	**-**	-

The fellow subsidiary with which the Company transacted was, Virgin Travelstore Limited. The creditor balance represents trading activity and as such does not attract any interest.

The related undertakings with which the Company transacted were, Barfair Limited. The creditor balance represents trading activity and as such does not attract any interest.

The parent undertaking with which the Company transacted was, Virgin.com Limited. The creditor balance represents trading activity and as such does not attract any interest.

20 Ultimate parent company

The ultimate parent undertaking at 31 March 2004 was Virgin Group Investments Limited, a company incorporated in the British Virgin Islands.