

Sound and Media Limited

**Directors' report and consolidated
financial statements**

Registered number 1476436

31 March 2004



Contents

Directors' report	3
Statement of directors' responsibilities	4
Report of the independent auditors to the members of Sound and Media Limited	5
Consolidated profit and loss account	6
Consolidated balance sheet	7
Company balance sheet	8
Notes	9

Directors' report

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

Principal activity

The principal activity of the group continues to be that of a wholesaler and retailer of books and DVD's.

Business review and future developments

The results of the period are set out on page 6 of the financial statements. The focus of the business has been the continued expansion of the Bookends chain plus future new releases from the Network label, and the restructuring of the Sound & Media Head Office to Hammersmith.

Two exciting new Bookends stores have opened since last year end at Spalding and Piccadilly. Bookends stores have performed well with the first 19 weeks to 7th August 2004 having seen sales grow by 9.8% like-for-like.

Network has released numerous titles with much acclaim. The titles include namely Ever Decreasing Circles, Chancer, Sykes, The Sweeney, 3rd Rock from the Sun and Peak Practice.

Dividends

Loss after tax of £1,969,516 (2003: £2,489,437) is stated before preference dividends of £61,250 (2003: £67,500).

Directors and directors' interests

The directors who held office during the period and their beneficial interest in the issued ordinary share capital at the beginning and end of the period were as follows:

	March 2004 Number of shares owned	Options as at 31 January 2004	Options lapsed in period	Options at 31 March 2004	Options vested at 31 March 2004
P Collins	4,167	82,573	-	82,753	46,673
P Worsfold (resigned 29 August 2003)	833	16,797	(16,797)	-	-
J Jackson (appointed 25 March 2002)	-	-	-	-	-
S Parden	-	-	-	-	-
T. Beddows (appointed 23 October 2003)	-	-	-	-	-
R Worsfold (appointed 23 October 2003)	-	-	-	-	-
A Lee (appointed 23 October 2003)	-	-	-	-	-

Vested options can only be exercised upon the sale of the business. The total purchase price for the options will be a nominal fee of £1. No options have been exercised in the period. The options will lapse on 3rd January 2013 or on directors ceasing employment with the 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

1st December 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 the group and of the profit or loss for that year. 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 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 group and to prevent and detect fraud and other irregularities.

Report of the independent auditors, KPMG LLP, to the members of Sound and Media Limited

We have audited the financial statements on pages 6 to 23.

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 auditor

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, 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 affairs of the company and the group as at 29 February 2004 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

15 Dec 2004

Consolidated profit and loss account

for the period ended 31 March 2004

	Note			Period ended 31 March 2004	Year ended 31 January 2003
		Continuing £	Discontinued £	Total £	£
Turnover					
Turnover	2	7,744,312	5,567,013	13,311,325	26,376,976
Cost of sales		(4,297,975)	(3,447,052)	(7,745,027)	(18,089,857)
Gross profit		3,446,337	2,119,961	5,566,298	8,287,119
Other Income		-	-	-	440,166
Distribution expenses		(28,545)	-	(28,545)	(404,797)
Administrative expenses		(4,685,362)	(2,460,443)	(7,145,805)	(10,197,651)
Total operating loss		(1,267,570)	(340,482)	(1,608,052)	(1,875,163)
Loss on disposal of fixed assets		(1,437)	(196,816)	(198,253)	(415,050)
Interest receivable and similar income	6			202	645
Interest payable and similar charges	7			(163,413)	(199,869)
Loss on ordinary activities before taxation	3			(1,969,516)	(2,489,437)
Taxation on loss on ordinary activities	8			-	-
Loss on ordinary activities after taxation				(1,969,516)	(2,489,437)
Minority interests				(22,138)	(7,841)
Loss for the financial period				(1,991,654)	(2,497,278)
Preference dividends	9			(61,250)	(67,500)
Retained loss for the financial period	18			(2,052,904)	(2,564,778)
Retained loss brought forward				(3,403,459)	(1,197,572)
Intercompany debt waiver				-	291,391
Unpaid preference dividends				61,250	67,500
Retained loss carried forward				(5,395,113)	(3,403,459)

There is no difference between the loss reported above and that on a historical cost basis.

There were no recognised gains or losses other than those recognised above within the retained loss for the financial period.

The notes on pages 9 to 23 form part of these financial statements

Consolidated balance sheet

at 31 March 2004

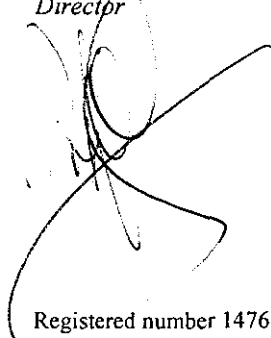
	Note	2004		2003	
		£	£	£	£
Fixed assets					
Intangible assets	11		26,366		31,019
Tangible fixed assets	12		205,775		946,216
			<u>232,141</u>		<u>977,235</u>
Current assets					
Stocks	14	1,232,626		2,860,593	
Debtors	15	2,480,104		2,909,263	
Cash at bank and in hand		1,517,557		807,422	
		<u>5,230,287</u>		<u>6,577,278</u>	
Creditors: amounts falling due within one year	16	<u>(9,687,507)</u>		<u>(9,810,076)</u>	
Net current liabilities			<u>(4,457,220)</u>		<u>(3,232,798)</u>
Total assets less current liabilities			<u>(4,225,079)</u>		<u>(2,255,563)</u>
Net liabilities			<u>(4,225,079)</u>		<u>(2,255,563)</u>
Capital and reserves					
Called up share capital	17		410,000		410,000
Preference shares	17		700,000		700,000
Profit and loss account	18		(5,395,113)		(3,403,459)
Shareholders' deficit			<u>(4,285,113)</u>		<u>(2,293,459)</u>
Equity	19	(5,133,863)		(3,080,959)	
Non-equity	19	848,750		787,500	
		<u>60,034</u>		<u>37,896</u>	
Minority interests	20		<u>(4,225,079)</u>		<u>(2,255,563)</u>

The notes on pages 9 – 23 form part of these financial statements.

These financial statements were approved by the board of directors on behalf by:

1/12/2004 and were signed on its

P A Collins
Director



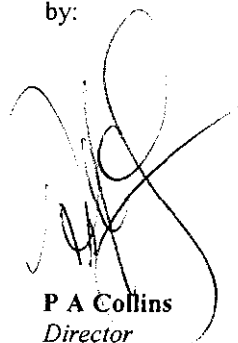
Company balance sheet

at 31 March 2004

	Note	2004 £	£	2003 £	£
Fixed assets					
Tangible assets	12		103,224		228,747
Investments	13		-		-
			<u>103,224</u>		<u>228,747</u>
Current assets					
Stocks	14	428,190		790,651	
Debtors	15	2,332,327		2,962,532	
Cash at bank and in hand		-		1,731	
		<u>2,760,517</u>		<u>3,754,914</u>	
Creditors: amounts falling due within one year	16	<u>(7,394,770)</u>		<u>(3,933,315)</u>	
Net current (liabilities)/assets			<u>(4,634,253)</u>		<u>(178,401)</u>
Total assets less current liabilities			<u>(4,531,029)</u>		<u>50,346</u>
Net assets			<u>(4,531,029)</u>		<u>50,346</u>
Capital and reserves					
Called up share capital	17	410,000		410,000	
Preference shares	17	700,000		700,000	
Profit and loss account	18	<u>(5,641,029)</u>		<u>(1,059,654)</u>	
Shareholders' funds					
Equity	19	<u>(5,379,779)</u>		<u>(737,154)</u>	
Non-equity	19	848,750		787,500	
			<u>(4,531,029)</u>		<u>50,346</u>

The notes on pages 9 to 23 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:


P A Collins
Director

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 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 31st March 2004. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account. (See note 10)

Under Financial Reporting Standard 1, the group is exempt from the requirement to prepare a cashflow statement on the grounds that a parent undertaking includes the company in its consolidated financial statements.

Goodwill and negative 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. Goodwill is being written off over 10 years

Negative goodwill arising on consolidation currently is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

Investments

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

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:

Short leasehold property	-	12 years
Plant and machinery	-	4 years
Fixtures, fittings, tools and equipment	-	2 – 5 years
Motor vehicles	-	3 – 4 years

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Leases

Assets held under finance leases are capitalised and included in tangible fixed assets at fair value. Each asset is depreciated over the shorter of the lease term or its useful life. The obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate under creditors within, or due after, one year. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account as incurred.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between treatment of certain items for taxation and accounting purpose 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.

Stocks

Stocks are stated at the lower of cost and net realisable value. During the year, the group elected to include costs directly incurred in the production of DVD's which had previously been expensed. Costs are amortised against budget sales. At 31 March 2004, the related balance was £983,946 in the group and company. The balance at 31 January 2003 is considered immaterial by the directors.

Pension

The group contributes to group personal pension plans on behalf of its employees. The pension cost charge represents contributions payable by the group to the fund.

Impairment

The Group evaluates its fixed assets for financial impairment where events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. When such evaluations indicate that the carrying value of an asset exceeds its recoverable value, an impairment in value is recorded.

Notes (continued)

2 Turnover

Turnover and loss before interest and tax by origin is analysed as follows:

Group

	Continuing	Discontinued	Total 2004	Continuing	Discontinued	Total 2003
	£	£	£	£	£	£
Turnover						
United Kingdom	7,744,312	5,567,013	13,311,325	7,391,986	12,242,508	19,634,494
Overseas	-	-	-	-	6,742,482	6,742,482
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	7,391,986	18,984,990	26,376,976
Cost of Sales	(4,297,975)	(3,447,052)	(7,745,027)	(4,634,930)	(13,454,927)	(18,089,857)
Other Income	-	-	-	372,346	67,820	440,166
Distribution costs	(28,545)	-	(28,545)	(176,546)	(228,251)	(404,797)
Administrative expenses	(4,685,362)	(2,460,443)	(7,145,805)	(3,715,584)	(6,482,067)	(10,197,651)
Loss on disposal of fixed assets for terminated operation	(1,437)	(196,816)	(198,253)	(8,990)	(406,060)	(415,050)
Loss before interest and tax						
United Kingdom	(1,269,007)	(537,298)	(1,806,305)	(771,717)	(669,997)	(1,441,714)
Overseas	-	-	-	-	(848,499)	(848,499)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(1,269,007)	(537,298)	(1,806,305)	(771,717)	(1,518,496)	(2,290,213)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Additional segmental information has not been disclosed as in the opinion of the director disclosure of such information would be seriously prejudicial to the interests of the group.

3 Loss on ordinary activities before taxation

	2004 £	2003 £
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration – Audit services: Group	48,452	65,638
Company	48,452	65,638
Depreciation of fixed assets:		
Owned	177,915	415,965
Leased	-	8,400
Impairment	-	64,551
Amortisation of goodwill	4,653	4,653
Hire of other assets – operating leases		
- land and buildings	1,442,834	1,940,584
- plant and machinery	8,272	7,893
Loss/(profit) on disposal of fixed assets	198,253	415,632
	<hr/>	<hr/>

Notes (continued)

4 Remuneration of directors

	2004 £	2003 £
Directors' emoluments (including benefits in kind) in respect of services as directors to the company and its subsidiary undertakings	351,436	375,515

The emoluments, excluding pension contributions of the Chairman and highest paid director were £166,462 (2003: £147,374).

5 Staff numbers and costs

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

	Number of employees	
	2004	2003
Administration and management	6	28
Distribution and marketing	73	262
	<u>79</u>	<u>290</u>

The aggregate payroll costs of these persons were as follows:

	2004 £	2003 £
Wages and salaries	2,516,499	3,898,433
Social security costs	308,349	295,644
Pension costs (note 21)	27,364	34,469
Other staff costs	80,773	154,662
	<u>2,932,985</u>	<u>4,383,209</u>

6 Other interest receivable and similar income

	2004 £	2003 £
Bank interest	202	35
Exchange gains	-	610
	<u>202</u>	<u>645</u>

Notes (continued)

7 Interest payable and similar charges

	2004 £	2003 £
On bank loans, overdrafts and other loans wholly repayable within five years	163,413	155,481
Finance charges payable in respect of finance leases and hire purchase contracts	-	14,196
Exchange losses	-	30,192
	<u>163,413</u>	<u>199,869</u>

8 Taxation

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

	2004 £	2003 £
<i>UK corporation tax</i>		
Current tax on income for the period	-	-
Adjustment in respect of prior years	-	-
	<u>-</u>	<u>-</u>
Total current tax	-	-
Deferred tax	-	-
	<u>-</u>	<u>-</u>
Tax on profit on ordinary activities	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
	<u>2004</u> £	<u>2003</u> £
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(1,969,516)	(2,489,437)
	<u>(1,969,516)</u>	<u>(2,489,437)</u>
Current tax at 30% (2003:30 %)	(590,855)	(746,831)
	<u>(590,855)</u>	<u>(746,831)</u>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	305,439	178,623
Capital allowances for period in excess of depreciation	(75,269)	11,483
Other short term timing differences	-	938
Unrelieved tax losses	360,684	555,787
	<u>360,684</u>	<u>555,787</u>
Total current tax charge (see above)	<u>-</u>	<u>-</u>

Notes (continued)

8 Taxation (Continued)

	Group Provided		Unprovided		Company Provided		Unprovided	
	2004	2003	2004	2003	2004	2003	2004	2003
	£	£	£	£	£	£	£	£
Capital allowances in excess of depreciation	-	-	(144,083)	(203,439)	-	-	(125,214)	(74,771)
Other timing differences	-	-	-	(938)	-	-	-	(938)
Deferred tax asset arising from tax losses	-	-	(827,755)	(1,196,275)	-	-	(1,011,807)	(475,843)
	-	-	(971,838)	(1,400,652)	-	-	(1,137,021)	(551,552)

Deferred Taxation

As at 31 March 2004 the group had an unprovided deferred tax asset of £971,838 (2003:£1,400,652), related primarily to unrelieved tax losses.

As at 31 March 2004 the company had an unprovided deferred tax asset of £1,137,021 (2003:£551,552), related primarily to unrelieved tax losses.

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.

9 Preference dividends

	2004	2003
	£	£
Non-equity shares		
Proposed preference dividend	61,250	67,500

10 Loss for the financial period attributable to shareholders

The loss for the financial period of the Company attributable to shareholders, being the loss on ordinary activities after taxation, was £4,581,375 (2003: £1,130,549). The retained loss for the period after preference dividends of £61,250 (2003: £67,500) was £4,642,625 (2003: £1,198,049).

Notes (continued)

11 Goodwill

	Positive goodwill	Negative Goodwill	Total
	£	£	£
Group			
<i>Cost</i>			
At 1 February 2003	46,529	(79,721)	(33,192)
At 31 March 2004	46,529	(79,721)	(33,192)
<i>Amortisation</i>			
At 1 February 2003	(15,510)	79,721	64,211
Charged in period	(4,653)	-	(4,653)
At 31 March 2004	(20,163)	79,721	59,558
<i>Net book value</i>			
At 31 March 2004	26,366	-	26,366
At 31 January 2003	31,019	-	31,019

The fair value of goodwill acquired as part of a business is determined by the acquisition method of accounting.

Notes (continued)

12 Tangible fixed assets

Group	Plant and machinery	Fixtures, fittings, tools and equipment	Motor vehicles	Total
			£	£
Cost				
At 1 February 2003	81,953	3,244,743	169,942	3,496,638
Additions	6,700	28,293	-	34,993
Disposals	(27,862)	(2,079,278)	(142,415)	(2,249,555)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	60,791	1,193,758	27,527	1,282,076
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 February 2003	81,953	2,322,935	145,534	2,550,422
Charge for period	670	169,749	7,496	177,915
Disposals	(27,857)	(1,495,638)	(128,541)	(1,652,036)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	54,766	997,046	24,489	1,076,301
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 March 2004	6,025	196,712	3,038	205,775
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2003	-	921,808	24,408	946,216
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

12 Tangible fixed assets

Company	Plant and Machinery	Fixtures, fittings, tools and equipment	Motor vehicles	Total
				£
Cost				
At 1 February 2003	81,952	716,178	83,195	881,325
Additions	6,700	24,490	-	31,190
Disposals	(27,862)	(240,872)	(68,368)	(337,102)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	60,790	499,796	14,827	575,413
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 February 2003	81,952	494,912	75,714	652,578
Charge for period	670	93,310	3,792	97,772
Disposals	(27,857)	(183,382)	(66,922)	(278,161)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	54,765	404,840	12,584	472,189
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 March 2004	6,025	94,956	2,243	103,224
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2003	-	221,266	7,481	228,747
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

13 Investments

The principal subsidiaries and associated undertaking are set out below.

Name	Country of incorporation	Principal activity	Percentage of ordinary shares held
*XS Home Entertainment Limited	England and Wales	Retailer of compact discs and videos	100%
*Soundsub Limited	England and Wales	Exporter of compact discs and videos	100%
Windguard Limited	England and Wales	Retailer of books and related products	95%
*XS Cosmetics Limited	England and Wales	Retailer of Cosmetics and Gift Products	100%
Beehive International Limited	England and Wales	Retail and marketing of CDs and videos	100%
Eureka Music Limited	England and Wales	Producers and distributors of compilation of compact discs	25%

*Owned directly by the company

Company

Shares in group
undertakings
£

Cost

At 1 February 2002 and 31 January 2003

701,002

Provisions

At 1 February 2003

(701,002)

Impairment charge

-

At 31 March 2004

-

Net book value

At 31 March 2004 and 31 January 2003

-

14 Stock

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Finished goods and goods for resale	1,232,626	2,860,593	428,190	790,651

Notes (continued)

15 Debtors

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Trade debtors	770,042	1,445,047	770,042	633,239
Amounts due from related parties	575,181	348,766	578,339	1,801,809
Other debtors	-	530,772	-	221,371
Prepayments and accrued income	1,134,881	584,678	983,946	306,113
	<u>2,480,104</u>	<u>2,909,263</u>	<u>2,332,327</u>	<u>2,962,532</u>

16 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loans and overdrafts	4,372,658	3,901,231	3,971,269	1,593,779
Obligations under finance leases and hire purchase contracts	-	20,948	-	20,948
Trade creditors	1,598,562	3,701,360	862,278	1,327,115
Amounts owed to parent undertaking (note 24)	-	680,157	-	254,970
Amounts owed to other group undertakings (note 24)	2,633,454	-	2,083,615	-
Other taxes and social security	205,621	115,979	15,390	19,627
Accruals and deferred income	877,212	1,391,401	462,218	716,876
	<u>9,687,507</u>	<u>9,811,076</u>	<u>7,394,770</u>	<u>3,933,315</u>

The bank loans and overdrafts are secured by a standard debenture over all the group's assets and undertakings.

Notes (continued)

17 Called up share capital

	2004 £	2003 £
<i>Authorised, allotted, called up and fully paid</i>		
Equity: 410,000 ordinary shares of £1 each	410,000	410,000
Non-equity: 700,000 convertible redeemable preference shares of £1 each	700,000	700,000
	<u>1,110,000</u>	<u>1,110,000</u>

Preference shares

The preference shareholders rank in advance of the ordinary shareholders in the event of a winding-up.

During the year ended 31st January 2001, the coupon on the convertible preference shares was increased from 5% p.a. to 7.5% p.a. and the date of redemption was extended to any time after 30 June 2004 and before 31 December 2005.

18 Reserves

Group

	Share capital £	Profit and loss Account £	Total £
At 1 February 2003	1,110,000	(3,403,459)	(2,293,459)
Retained loss for the financial period	-	(2,052,904)	(2,052,904)
Waiver of amounts owed to subsidiary undertakings	-	-	-
Unpaid preference dividend	-	61,250	61,250
	<u>1,110,000</u>	<u>(5,395,113)</u>	<u>(4,285,113)</u>
At 31 March 2004	<u>1,110,000</u>	<u>(5,395,113)</u>	<u>(4,285,113)</u>

Company

	Share capital £	Profit and loss Account £	Total £
At 1 February 2003	1,110,000	(1,059,654)	50,346
Retained loss for the financial period	-	(4,642,625)	(4,642,625)
Unpaid preference dividend	-	61,250	61,250
	<u>1,110,000</u>	<u>(5,641,029)</u>	<u>(4,531,029)</u>
At 31 March 2004	<u>1,110,000</u>	<u>(5,641,029)</u>	<u>(4,531,029)</u>

Notes (continued)

19 Reconciliation of movements in shareholders' (deficit) / funds

for the period ended 31 March 2004

	Equity 2004	Group Non-equity 2004	Total 2004	Equity 2004	Company Non-equity 2004	Total 2004
Loss for the financial period	(1,991,654)	-	(1,991,654)	(4,581,375)	-	(4,581,375)
Total appropriation by non-equity shareholders	(61,250)	61,250	-	(61,250)	61,250	-
Net reduction in shareholders' deficit	(2,052,904)	61,250	(1,991,654)	(4,642,625)	61,250	(4,581,375)
Opening shareholders' funds	(3,080,959)	787,500	(2,293,459)	(737,154)	787,500	50,346
Closing shareholders' deficit	(5,133,863)	848,750	(4,285,113)	(5,379,779)	848,750	(4,531,029)

The balance on the profit and loss account attributable to non-equity shareholders represents arrears of preference dividends.

20 Minority interests

	Group £
At 1 February 2003	37,896
Share of profit on ordinary activities after taxation	22,138
At 31 March 2004	60,034

Notes (continued)

21 Pension scheme

The group operates a defined contribution pension scheme for the benefit of the directors and senior employees. The total contributions in the period amounted to £27,364 (2003: £34,469).

22 Commitments

Annual commitments under cancellable operating leases are as follows:

Group

	2004		2003	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within one year	133,323	-	56,582	7,893
Two to five years	678,024	-	476,163	-
After five years	671,109	-	725,038	-
	<u>1,482,456</u>	<u>-</u>	<u>1,257,783</u>	<u>7,893</u>

Company

	2004		2003	
	Land and Buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Two to five years	-	-	-	-
After five years	129,826	-	129,826	-
	<u>129,826</u>	<u>-</u>	<u>129,826</u>	<u>-</u>

The above amounts represent base rentals only, an additional rental is charged based on store turnover.

Notes (continued)

23 Contingent liabilities

The group has given a guarantee to the bank for the indebtedness of the company and its subsidiary undertakings. The contingent liability of the company was £2,855,101 as at 31 March 2004 (2003: £2,893,810).

24 Related party transactions

At 31st 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.

As the company is over 90% owned by Barfair Limited the Company has taken advantage of the exemption under FRS8, which enables it to exclude disclosure of transactions disclosed in Barfair's financial statements.

The items that require disclosure are:

(a) J Jackson is a non executive director of Sound and Media Ltd and also a non executive director of Virgin Cosmetics Ltd, whom XS Cosmetics Ltd a subsidiary of Sound and Media Ltd trades with. The value of goods purchased from Virgin Cosmetics Ltd in the period to March 2004 was £531,898. The balance due to Virgin Cosmetics Ltd at the period end is £nil.

25 Ultimate parent

The company is a subsidiary undertaking of Virgin Group Investments Limited, a company incorporated in the British Virgin Islands.

The largest group in which the results of the Company are consolidated is those of Barfair Limited, registered in England and Wales. The smallest group in which they are consolidated is that headed by Virgin Voyager Limited, registered in England and Wales. The consolidated accounts of these groups can be obtained from Companies House.