Virgin Balloon Flights Limited

Directors' report and financial statements

Registered number 2969369

Draft - 31 January 2003

Contents

Directors' report

The directors have pleasure in presenting their annual report and the audited financial statements of the company for the year ended 31 January 2003.

Principal activity

The principal activity of the company is the promotion and provision of passenger balloon flights.

Results for the year and transfer to reserves

The results for the year are presented on page 5 of the financial statements. The loss for the year of £543,904 *(2002: loss £913,780)* has been transferred to reserves. The directors do not recommend the payment of a dividend *(2002: £nil)*.

Review of the business

Trading continued to be difficult during the year and as a result a decision was taken to grant a third party, Air Xcite Limited, a license to carry out future Balloon flights under the Virgin Brand. This agreement is effective from 3rd July 2003.

Directors

The directors who served throughout the year were as follows:

AC Johnson	(resigned 18 July 2003)
GD McCallum	
STM Murphy	
WE Whitehorn	

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company or other group companies.

Directors' report *(continued)*

Auditors

The members of the Company have passed elective resolutions in accordance with Sections 366A, 252 and 386 of the Companies Act 1985 dispensing with the previous statutory requirement of holding annual general meetings, laying accounts before the Company in general meetings and reappointing auditors annually. The last resolution will lead to the continuing appointment of KPMG LLP as auditors of the company until further notice.

By order of the board

PG Gram
Secretary

120 Campden Hill Road
London
W8 7AR

27 November 2003

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 of the company 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.

kpmg

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Report of the independent auditors to the members of Virgin Balloon Flights Limited

We have audited the financial statements on pages 5 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 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 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 January 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

27 November 2003

Profit and loss account

for the year ended 31 January 2003

	Note	2003 £	2002 £
Turnover	*1*	**626,652**	365,555
Cost of sales		**(547,556)**	(325,218)
Gross profit		**79,096**	40,337
Administrative expenses	*4*	**(588,900)**	(921,781)
Operating Loss before exceptional expenses		**(253,182)**	(688,498)
Exceptional Expenses	*4*	**(335,718)**	(192,946)
Operating loss		**(509,804)**	(881,444)
Interest receivable and similar income	*5*	**-**	50
Interest payable and similar charges	*6*	**(34,100)**	(32,386)
Loss on ordinary activities before taxation	*4*	**(543,904)**	(913,780)
Tax on loss on ordinary activities	*7*	**-**	-
Loss retained for the year	*14*	**(543,904)**	(913,780)
Accumulated losses brought forward		**(2,530,851)**	(1,617,071)
Accumulated losses carried forward		**(3,074,755)**	(2,530,851)

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

The operating loss of the company arose solely from continuing activities.

There were no recognised gains or losses in the year other than those disclosed in the profit and loss account above, and there are no movements in shareholders' funds other than the loss retained for the year.

Balance sheet

at 31 January 2003

	Note	2003		2002	
		£	£	£	£
Fixed assets					
Tangible assets	8		-		327,071
Current assets					
Debtors	9	**41,687**		459,099	
		41,687		459,099	
Creditors: amounts falling due within one year	10	**(1,597,097)**		(1,993,707)	
Net current liabilities			**(1,555,410)**		(1,534,608)
Total assets less current liabilities			**(1,555,410)**		(1,207,537)
Creditors: amounts falling due after one year	11		**(1,500,503)**		(1,304,472)
Net liabilities			**(3,055,913)**		(2,512,009)
Capital and reserves					
Called up share capital	12		**100**		100
Share premium account			**18,742**		18,742
Profit and loss account			**(3,074,755)**		(2,530,851)
Shareholders' Deficit	13		**(3,055,913)**		(2,512,009)

These financial statements were approved by the board of directors on 24 November 2003 and were signed on its behalf by:

WE Whitehorn
Director

Balance sheet

at 31 January 2003

	Note	2003		2002	
		£	£	£	£
Fixed assets					
Tangible assets	*8*		-		327,071
Current assets					
Debtors	9	**41,687**		459,099	
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Net liabilities			**(3,055,913)**		(2,512,009)
Capital and reserves					
Called up share capital	*12*		**100**		100
Share premium account			**18,742**		18,742
Profit and loss account			**(3,074,755)**		(2,530,851)
Shareholders' Deficit	*13*		**(3,055,913)**		(2,512,009)

These financial statements were approved by the board of directors on 24 November 2003 and were signed on its behalf by:

WE Whitehorn
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following significant 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 of financial statements

The financial statements have been prepared under the historical cost convention, and in accordance with applicable Accounting Standards.

Under Financial Reporting Standard No 1 (revised 1996), which the company has adopted in these financial statements, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking, Barfair Limited, includes the company in its own published consolidated financial statements.

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.

Turnover

Turnover, which excludes Value Added Tax, represents the sales value of goods and services supplied in the United Kingdom.

Depreciation

Depreciation of fixed assets is provided for on a straight line basis applied to original cost at rates estimated to write off each asset over its remaining useful life. For the purposes of calculating depreciation, the effective annual rates for the classes of assets currently held are as follows:

Fixtures and fittings	-	25%
Computer equipment	-	25%
Motor vehicles	-	25%
Balloons	-	Based on hours flown

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 FRS19.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Notes *(continued)*

4 Loss on ordinary activities before taxation

	2003	2002
	£	£
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration – audit	**12,660**	7,000
Depreciation and other amounts written off tangible fixed assets	**60,652**	77,741
Hire of plant and equipment – rental	**2,926**	1,269
Loss on disposal of tangible fixed assets	-	8,671
Provision against debtors	-	18,770
Net exchange loss	**2,779**	-
Exceptional Items (included in administration expenses)		
Group balances written off in year	-	192,946
Management charges	**80,858**	-
Impairment of tangible assets	**254,860**	-

The group balance relates to a balance held with Global Circumnavigation. The £254,860 arose as a result of carrying out a review of the company's fixed assets which resulted in an exceptional impairment charge.

5 Interest receivable and similar income

	2003	2002
	£	£
Bank interest receivable	-	50

6 Interest payable and similar charges

	2003	2002
	£	£
Interest payable on bank overdraft	**12,971**	32,386
Other Interest	**21,129**	-
	34,100	32,386

Notes *(continued)*

1 Accounting policies *(continued)*

Pension costs

The company is a member of a defined contribution pension scheme operated by Virgin Management Limited, a related company. The assets of the scheme are held separately in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

2 Staff numbers and costs

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

	Number of employees	
	2003	2002
Administration	-	6
Operations	-	2
	-	8

	2003	2002
	£	£
Wages and salaries	-	248,973
Social security costs	-	21,552
Other pension costs	-	1,441
	-	271,966

3 Directors' emoluments

None of the directors received any remuneration from the company during the financial year *(2002: £nil)*.

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 lower than the standard rate of corporation tax in the UK: 30%; *(2002: 30%)*. The differences are explained below.

	2003	2002
	£	£
Current tax reconciliation		
Loss on ordinary activities before tax	**(543,904)**	(913,780)
Current tax at 30 % (30%)	**(163,171)**	(274,134)
Effects of:		
Expenses not deductible for tax purposes	**10,890**	67,750
Capital allowances for period in excess of depreciation	**75,727**	(7,184)
Tax losses not utilised or recognised	**76,555**	213,568
Other timing differences	-	-
Total current tax charge (see above)	-	-

As at 31 January 2003 the company had tax losses available to carry forward of £1,547,227; *(2002:£1,184,195)* against which no deferred tax asset has been recognised. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Notes *(continued)*

8 Tangible fixed assets

	Leasehold improvement	Balloon equipment	Office equipment	Computer equipment	Database	Event equipment	Total
	£	£	£	£	£	£	£
Cost							
At 1 February 2002	13,174	699,397	38,170	90,210	123,108	3,781	967,840
Disposals	-	-	-	(11,559)	-	-	(11,559)
At 31 January 2003	***13,174***	***699,397***	***38,170***	***78,651***	***123,108***	***3,781***	***956,281***
Depreciation							
At 1 February 2002	**10,106**	**423,584**	**34,969**	**66,778**	**103,964**	**1,368**	**640,769**
Charge for year	-	40,799	-	-	19,144	709	60,652
Exceptional impairment charge	3,068	235,014	3,201	11,873	-	1,704	254,860
At 31 January 2003	**13,174**	**699,397**	**38,170**	**78,651**	**123,108**	**3,781**	**956,281**
Net book value							
At 31 January 2003	-	-	-	-	-	-	-
At 31 January 2002	3,068	275,813	3,201	23,433	19,144	2,413	327,071

During the year the carrying value of the company's fixed assets were reviewed. An exceptional impairment charge of £254,860 has been made reflecting the directors' future plans for the business

Notes *(continued)*

9 Debtors: amounts falling due within one year

	2003 £	2002 £
Trade Debtors	**12,118**	334,253
Amounts owed by group undertakings	**23,771**	80,035
Amounts owed by related parties	-	5,014
Other debtors	**3,707**	16,386
Prepayments and accrued income	**2,091**	23,411
	41,687	459,099

10 Creditors: amounts falling due within one year

	2002 £	2001 £
Bank overdraft	**935,130**	656,630
Trade creditors	**71,789**	18,378
Amounts owed to group undertakings	**27,818**	224,740
Amounts owed to related undertakings	-	23,081
Other creditors including tax and social security	-	34,242
Accruals and deferred income	**562,360**	1,036,636
	1,597,097	1,993,707

11 Creditors: amounts falling due after more than one year

	2003 £	2002 £
Amounts owed to group undertakings	**1,500,503**	1,304,472

Notes *(continued)*

12 Share capital

	2003 £	2002 £
Authorised		
1,000 ordinary shares of £1 each	**1,000**	1,000
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	**100**	100

13 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Loss for the period	**(543,904)**	(913,780)
Opening shareholders' deficit	**(2,512,009)**	(1,598,229)
Closing shareholders' deficit	**(3,055,913)**	(2,512,009)

14 Contingent liability

Guarantees have been given in respect of bank overdrafts and other borrowings of group companies. These guarantees are supported by mortgage debentures creating fixed and floating charges over all the Company's assets.

15 Commitments

There are no annual commitments under non-cancellable operating leases.

Notes *(continued)*

16 Related party disclosure

At 31 January 2003, the company's ultimate parent company was Virgin Group Investments Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Investments Limited. The principal beneficiaries of those trusts are Sir RCN 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.

The following is a summary of those transactions and balances between the Company and the related parties which are required to be disclosed under Financial Reporting Standard No. 8.

	Related party undertaking	
	2003	2002
	£	£
Debtors	20,789	5,014
Creditors	-	(23,081)

The related party undertakings with whom the Company transacted during the above periods were Virgin Hotels Limited and Virgin Clubs Limited.

17 Ultimate parent company and parent undertaking of larger group of which the company is a member

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 that headed by 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 for these companies can be obtained from Companies House, Crown Way, Cardiff, CF4 3HZ.

18 Post Balance Sheet Events

On 3 July 2003 an agreement was entered into with Air Xcite Limited to carry out future Virgin Balloon flights under the Virgin Balloon name for a nominal sum. These assets have been fully depreciated