Virgin Holidays Limited and subsidiary companies

Directors' report and consolidated financial statements
28 February 2011

Registered number 1873815

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Directors' report

Registered number: 1873815

The directors present their annual report and the audited financial statements for the year ended 28 February 2011

Principal activity

The principal activity of the Group continues to be that of a tour operator providing inclusive package holidays and flights, from the United Kingdom to the United States, the Caribbean and other worldwide destinations

The subsidiaries impacting the profits or net assets of the Group in the year are listed in note 22 to the financial statements

Results

The Group's trading results are as stated on page 8 of the financial statements The operating profit before exceptional costs for the year was £17 7m *(2010 £22 5m)* The Directors are pleased with the Group's financial performance, further information on which is summarised below

Business review

It has been a challenging year for the travel industry not only due to the tough global economic climate but also due to the exceptional incidents affecting travel to and from the UK The Icelandic volcano Eyjafjallajokull erupted closing UK airspace from 15 April to 20 April and unusually severe snow conditions forced further unprecedented closure of major UK airports, including London Heathrow, in December 2010 During these periods of closure and the period to resumption of a full flying schedule a large number of bookings were cancelled and the Group's ability to earn revenue from package holidays was severely impacted In addition the Group incurred exceptional costs providing customer care for the thousands of passengers stranded overseas

The incremental costs incurred for customer care as a result of the Volcanic Ash have been accounted for as an exceptional item in the consolidated profit and loss account for the year ended 28 February 2011 The direct costs of repatriating inbound customers and hotel and welfare cost for passengers in resort during the closure were £3 5m

The lost margin due to cancelled bookings during these periods of disruption is estimated at £1 8m and the estimated reduction in Virgin Holidays' sales in the immediate period after April 2010 as a result of the uncertainty in the UK in relation to further anticipated closures is estimated at £1 2m

During the year the Group has continued to expand its chain of retail concession in Debenhams, Tesco and House of Fraser stores and the number of retail outlets open as at the 28 February 2011 stood at 49 *(2010 30)* A further 11 outlets are due to open by June 2011 in a number of prime locations

In line with the Group's accounting policy the costs, principally payroll, of generating sales are expensed as incurred, where as the revenue therefrom is recognised at the point of departure This contrasts with the costs of sales via agents, which are recognised at the point of departure along with revenue As a result the Group's financial performance will be adversely impacted in the years over which it expands its distribution through retail stores

The (unaudited) estimated financial impact of the Ash Cloud and the other unusual/infrequent events on the Group's financial performance is summarised in the analysis below This analysis also adjusts for the investments made in the retail stores by deferring the recognition of the costs of generating sales to the date of departure of the holidays, at which point the revenue is recognised (ie analysing the margin on sales using the Group's accounting policy for sales via agents)

Directors' report *(continued)*

Business review *(continued)*

	2011 £m	2010 £m
Operating profit before exceptional items	17 7	22 5
Impact on margins of Ash Cloud and other events (unaudited)	3 0	-
Deferral of Group retail costs to point of departure (unaudited)	4 6	3 0
Indicative underlying operating profit (unaudited)	25 3	25 5

The directors consider that the indicative underlying operating profit of £25 3m *(2010 £25 5m)* reflects a relatively strong financial performance in what has been a tough economic environment

The Group continues to focus on delivering excellent customer service with innovative products such as an overseas Concierge service and the V ROOM Manchester which is due to open in summer 2011 (following the success of the V ROOM Gatwick, the first leisure airport lounge in the UK)

The Group has continued to expand its long-haul product range and invest in key strategic initiatives, such as expansion of the retail outlets, our new core reservation system and marketing campaigns in order to maintain a strong forward sales position and to ensure that the Group is well placed for when the economic climate improves

The Group's mission statement is "To grow a profitable company that people love to travel with and where people love to work" The Group has strategic goals which support this mission All initiatives by the Group, employee objectives and key performance indicators are aligned with these goals

The Group acquired Bales Worldwide Limited on 14 December 2009, an operator specialising in premium escorted tours and tailored itineraries The Bales Worldwide results for the 14 month period from 1 Jan 2010 to 28 Feb 2011 are consolidated in the Group results this year

Performance during the year, together with historical trend data is set out in the table below

Turnover by destination$_1$	**2011**	**2010**
North America	£227m	£231m
Caribbean	£148m	£149m
Far East	£57m	£46m
Africa	£22m	£16m
Cruises / Other	£61m	£63m
Total	£515m	£505m
Gross profit margin $_2$	13 4%	14 2%
Operating profit before exceptional items$_3$	£17 7m	£22 5m
Indicative underlying operating profit (unaudited)$_4$	£25 3m	£25 5m
Indicative underlying operating profit margin (unaudited) $_5$	4 9%	5 0%

Definition, method of calculation and analysis

$_1$Turnover by destination is derived by allocating revenue to the destination based on the location of the first night's accommodation outside the United Kingdom Also, see accounting note 1(c)

$_2$Gross profit margin is the ratio of gross profit to turnover expressed as a percentage

$_3$Operating profit is gross profit less administrative expenses before exceptional items

$_4$Indicative underlying operating profit is the operating profit after adding back lost margin due to one off events and retail investment

$_5$ Indicative underlying operating profit margin is the total adjusted underlying operating profit divided by turnover

Directors' report *(continued)*

Post balance sheet events

Prior to 1 March 2011, the Company had trademark licenses from Virgin Travel Group Limited for the use of the Virgin name and logo which were royalty free Since 1 March 2011, the terms of these trade mark licences have been renegotiated such that from 1 March 2011 the Company will pay royalties to a fellow subsidiary of the Company's holding company, Virgin Atlantic Limited, based on the relevant turnover for the Group

Future outlook

The external commercial environment is expected to continue to provide challenges in 2011/12 due to continuing tough UK economic conditions The Group has a three year strategic plan and will continue to work with its fellow subsidiary, Virgin Atlantic Airways Limited, to ensure that it can continue to expand capacity on key leisure routes and increase the amount of seats it sells on Virgin Atlantic Airways' aircraft This plan focuses on protecting the Group's core market of the United States, defending and growing the Caribbean product and expanding the Cruise, Touring and other Worldwide destination products

Principal risks and uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks The key business risks and uncertainties affecting the Group are considered to relate to foreign currency exposure, competition from both high street travel agents and internet retailers, and the effects of disrupted travel plans whether due to natural disaster situations or security scares

The Group's policy in relation to managing its foreign currency exposure is detailed below The Group has detailed emergency procedures to respond to any emergency situation and all staff are trained on their roles and responsibilities in such situations

Dividends

There was no interim declared in the year *(2010 Interim dividend of £1 63 per share was declared and paid)* A final dividend of £48 5m *(£19 75 per share)* was declared and paid on 3 March 2011 *(2010 £nil)*

Directors

The directors who served during the year were as follows

Sir Richard Branson	(President)
S T M Murphy	(Chairman)
A E Wills	
D A Baxby	
S T M Hee	
J J Peachey	
M Poole	
S B Ridgway	
J Seow	
J H Southern	(Resigned on 14 April 2011)
P W L Tan	
P T Tan	(Appointed on 27 December 2010)
K W Yap	(Resigned on 27 December 2010)

Directors' report *(continued)*

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

Donations

During the year the Group made payments of £65,146 for charitable purposes *(2010 £100,473)* During the year the Group did not make any contributions to political parties *(2010 £nil)*

Financial risk management

The Board of Directors is responsible for setting financial risk management policy and objectives, and approves the parameters within which the various aspects of financial risk management are operated A treasury policy approved by the Board of Directors outlines the Group's approach to corporate and asset financing, foreign exchange risk and cash and liquidity management

The Board of Directors have delegated power for treasury risk management to the Treasury Risk Committee This Committee ensures that the treasury policies and objectives approved by the Board of Directors are fully implemented

Foreign currency risk

The Group is exposed to foreign currency risk and utilises a range of hedging instruments, arranged on its behalf by a fellow subsidiary company of Virgin Atlantic Limited, to minimise its foreign exchange exposure The key foreign currency risk arises in respect of US Dollars, Thai Bahts, Arab Emirates Dirhams and South African Rands

Derivative financial instruments

The Group's policy is not to trade in derivatives but to use these instruments to hedge anticipated exposures All derivatives are used for the purpose of risk management and accordingly they do not expose the Group to market risk as they are matched to identified physical exposures within the Group

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office until further notice

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By order of the Board

I M J de Sousa
Company Secretary

Company Secretariat,
The Office, Manor Royal,
Crawley,RH10 9NU

3 May 2011

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and their profit or loss for that period

In preparing the Group and Parent Company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,

- make judgments and estimates that are reasonable and prudent,

- state whether applicable UK 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 Group and Parent Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and Parent Company and to prevent and detect fraud and other irregularities

KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRGIN HOLIDAYS LIMITED

We have audited the financial statements of Virgin Holidays Limited for the year ended 28 February 2011 set out on pages 8 to 27 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 February 2011 and of the Group's profit after tax for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Avtar Jalif (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

10 May 2011

Consolidated profit and loss account

for the year ended 28 February 2011

	Note	**2011 £'000**	2010 £'000
Turnover	*1(c),2*	**515,305**	505,203
Cost of sales (excluding exceptional items)		**(442,123)**	(433,363)
Exceptional items	*6*	**(4,006)**	-
Cost of sales		**(446,129)**	(433,363)
Gross profit		**69,176**	71,840
Administrative expenses	*1(d)*	**(55,458)**	(49,297)
Operating profit			
Operating profit before exceptional items		**17,724**	22,543
Exceptional items		**(4,006)**	-
		13,718	22,543
Other interest receivable and similar income	*4*	**1,662**	1,617
Interest payable and similar charges	*5*	**(18)**	(19)
Profit on ordinary activities before taxation	*6*	**15,362**	24,141
Tax on profit on ordinary activities	*8*	**(4,197)**	(6,627)
Profit on ordinary activities after taxation		**11,165**	17,514

There are no recognised gains or losses other than the profit for the year The profit for the year arises from continuing operations

The notes on pages 11 to 27 form part of these financial statements

An analysis of the un-audited indicative underlying operating profit for the year is summarised in the Directors' report on pages 2 and 3

Consolidated balance sheet
at 28 February 2011

		2011		2010	
	Note	**£'000**	**£'000**	£'000	£'000
Fixed assets					
Intangible assets	*10*		**7,313**		8,329
Tangible assets	*11*		**18,073**		14,593
Investments	*12*		**100**		91
			25,486		23,013
Current assets					
Stock		**31**		58	
Debtors					
- due within one year	*13*	**264,762**		289,362	
- due after one year	*13*	**1,574**		2,928	
Total debtors		**266,366**		292,290	
Cash at bank and in hand		**56,655**		16,149	
		323,022		308,497	
Creditors					
Amounts falling due within one year	*14*	**(224,388)**		(217,733)	
Net current assets			**98,634**		90,764
Total assets less current liabilities			**124,120**		113,777
Creditors					
Amounts falling due after one year	*14*		**(161)**		(539)
Provisions for liabilities and charges	*15*		**(804)**		(1,248)
Net assets			**123,155**		111,990
Capital and reserves					
Called up share capital	*17*		**2,456**		2,456
Profit and loss account			**120,699**		109,534
Shareholders' funds	*18*		**123,155**		111,990

These financial statements were approved by the Board of Directors on 3 May 2011 and were signed on its behalf by

S. Ridgway

S B Ridgway
Director

The notes on pages 11 to 27 form part of these financial statements

Company balance sheet

at 28 February 2011

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Fixed assets					
Intangible assets	10		**743**		1,149
Tangible assets	11		**15,584**		12,496
Investments	12		**10,817**		10,816
			27,144		24,461
Current assets					
Stock		**31**		58	
Debtors					
- due within one year	13	**246,550**		271,701	
- due after one year	13	**1,445**		2,847	
Total debtors		**247,995**		274,548	
Cash at bank and in hand		**50,647**		8,814	
		298,673		283,420	
Creditors: amounts falling due within one year	14	**(205,964)**		(200,044)	
Net current assets			**92,709**		83,376
Total assets less current liabilities			**119,853**		107,837
Provisions for liabilities and charges	15		**(770)**		(1,248)
Net assets			**119,083**		106,589
Capital and reserves					
Called up share capital	17		**2,456**		2,456
Profit and loss account			**116,627**		104,133
Shareholders' funds	18		**119,083**		106,589

These financial statements were approved by the Board of Directors on 3 May 2011 and were signed on its behalf by

S. Ridgway

S B Ridgway
Director

The notes on pages 11 to 27 form part of these financial statements

Notes *(forming part of the financial statements)*

1 Principal accounting policies

The following accounting policies have been consistently applied in dealing with items which are considered material in relation to the consolidated financial statements of the Group

(a) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards

The Company has taken advantage of section 408 of the Companies Act 2006 and a separate profit and loss account for the Company has not been published The result for the year attributable to the Company is disclosed in note 18

Under Financial Reporting Standard 1 (Revised), the Group is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Virgin Atlantic Limited The Group's cash flows are included within the consolidated cash flow statement of that company

(b) Basis of consolidation

The financial statements consolidate Virgin Holidays Limited ("the Company") and its subsidiaries (together "the Group") The acquisition method of accounting has been adopted In the Company's accounts, investments in subsidiary undertakings are stated at cost, less provision for any impairment

(c) Turnover

Turnover is derived from ordinary activities and principally comprises the sale of the Group's holiday packages, flights and ancillary products Revenue from the sale of these products is recognised on the date of departure, gross of all charges billed to the customer less any discounts and sales taxes Revenue relating to holiday packages, flights and ancillary products with dates of departure beyond the accounting reference date, together with any commission thereon, is carried forward as deferred income

The Group also receives agency commission for the sale of third party holiday products The agency commission due from the third party is recognised as revenue when earned, typically at date of booking

(d) Administrative expenses

Administrative expenses comprise overhead expenses together with marketing and promotional costs Marketing costs are expensed to the profit and loss account as incurred

(e) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged, at the forward contract rate Monetary assets and liabilities denominated in foreign currency are translated into sterling at the month end exchange rate Exchange differences arising through the translation of foreign currency assets and liabilities are included in the profit and loss account

(f) Derivative financial instruments

The Group uses various derivative financial instruments to manage its exposure to foreign exchange risks Gains and losses on hedges of revenue or operating expenses are recognised in the profit and loss account of the period in which the hedged transaction matures

Notes *(continued)*

1 Principal accounting policies *(continued)*

(g) Pension costs

The Group participates in a defined contribution group scheme The assets of the scheme are held separately from those of the Group in an independently administered fund The amount charged in the profit and loss account represents the contributions payable by the Group to the scheme in respect of the accounting period

(h) Taxation including deferred tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

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

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date

(i) Intangible fixed assets

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life Provision is made for any impairment

Other intangible fixed assets are written off through the profit and loss account over their estimated useful economic life in accordance with Financial Reporting Standard 10

(j) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment

Depreciation is calculated to write off the cost, less estimated residual value, on a straight-line basis over the useful economic life of the asset, or the period of the underlying finance lease if shorter Freehold land is not depreciated

Tangible fixed assets are depreciated at the following rates

Freehold property	-	1% - 2% (excluding land)
Fixtures and fittings	-	20-25% on cost
Plant and equipment	-	10-33$^1/_3$% on cost
Motor vehicles	-	25% on cost
Leasehold improvements	-	11-33$^1/_3$% on cost

Notes *(continued)*

1 Principal accounting policies *(continued)*

(k) Stock

Stocks are stated at the lower of average cost and net realisable value Provision is made for obsolete, slow-moving or defective items where appropriate

(l) Cash and liquid resources

Cash at bank and in hand includes both cash and liquid resources Cash includes cash in hand and deposits repayable on demand held with any financial institution Liquid resources include term deposits

2 Analysis of turnover

All turnover originates from within the United Kingdom Turnover, Group operating profit and net assets are analysed below

Analysis of turnover by destination	**2011**	2010
	£'000	£'000
North America	**227,023**	231,073
Caribbean	**148,532**	149,051
Far East	**57,009**	45,993
Africa	**22,076**	15,771
Other	**60,665**	63,315
	515,305	505,203

The geographical analysis of revenue by destination is derived by allocating revenue to the destination based on the location of the first night's accommodation outside the United Kingdom A geographical analysis of the Group operating profit and net assets is not disclosed as it is neither practical nor meaningful to allocate the Group's operating expenditure on a geographical basis

By activity	**Turnover**		**Operating profit/(loss)**		**Net assets**	
	2011	2010	**2011**	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Holiday tour operations	**509,071**	497,733	**14,039**	21,049	**119,355**	111,791
Travel agency	**6,234**	7,470	**(321)**	1,494	**3,800**	1,307
Consolidation adjustments	**-**	-	**-**	-	**-**	(1,108)
	515,305	505,203	**13,718**	22,543	**123,155**	111,990

Notes *(continued)*

3 Staff numbers and costs

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

	2011	2010
Selling	**494**	430
Administration	**188**	178
Operations	**283**	258
	965	866

	2011	2010
	£'000	£'000
Wages and salaries	**25,505**	23,646
Social security costs	**2,346**	2,239
Pension costs	**716**	568
	28,567	26,453

The Virgin Atlantic Limited group of companies operates a defined contribution pension scheme The pension cost charged in the profit and loss account for the year represents contributions payable by the Group to the scheme There were no outstanding or prepaid contributions at either the beginning or end of the financial year

4 Other interest receivable and similar income

	2011	2010
	£'000	£'000
Interest receivable from group undertakings	**1,639**	1,584
Interest on bank deposits	**23**	25
Other income	**-**	8
	1,662	1,617

5 Interest payable and similar charges

	2011	2010
	£'000	£'000
Unwinding of discount factor on dilapidation provision	**18**	19

Notes *(continued)*

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging / (crediting)

	2011	2010
	£'000	£'000
Depreciation of owned tangible fixed assets	**3,443**	2,233
Profit on disposal of fixed assets	**-**	(10)
Rentals under operating leases		
- land & buildings	**2,768**	1,993
- other	**79**	100
Amortisation of intangible fixed assets	**1,016**	864
Foreign exchange (gain)/loss	**(592)**	1,291
Exceptional impact of volcanic ash and restructuring	**4,006**	-

The analysis of auditors' remuneration is as follows

	2011	2010
	£'000	£'000
Audit of the Company's and subsidiaries' financial statements	**87**	60

Exceptional items in the current year include the incremental costs incurred as a result of the volcanic eruption in Iceland in April 2010, following which the UK's main air traffic control service provider ('NATS') closed UK airspace for 6 days The Group incurred costs of £3 5 million relating to the care of passengers awaiting repatriation to their home base The additional exceptional items represent £0 5m of restructuring costs

Fees payable to the Group's auditor and its associates for services other than the statutory audit of the parent company and subsidiaries are not disclosed in Virgin Holidays Limited's accounts since the consolidated accounts of Virgin Holidays Limited parent, Virgin Atlantic Limited, are required to disclose non audit fees on a consolidated basis

7 Emoluments of directors

	2011	2010
	£'000	£'000
Emoluments paid	**246**	352
Company contributions to money purchase pension schemes	**24**	24
Aggregate amounts receivable under Long Term Incentive Schemes	**-**	84
	270	460

Aggregate emoluments receivable for the financial year were £506,000 *(2010 £270,000)* Aggregate amounts receivable for the financial year under Long Term Incentive Schemes were £nil *(2010 £nil)*

The emoluments and other benefits paid to the highest paid director were £270,000 *(2010 £460,000)* The Company contributions made to a money purchase pension scheme on their behalf were £24,000 *(2010 £24,000)* The aggregate emoluments and other benefits of the highest paid director receivable for the financial year were £506,000 *(2010 £270,000)* Aggregate amounts receivable for the financial year under Long Term Incentive Schemes were £nil *(2010 £nil)*

Retirement benefits are owing to one director *(2010 nil)* under money purchase pension schemes at the end of the year

Notes *(continued)*

8 Taxation

	2011 £'000	2010 £'000
UK corporation tax at 28% (2010 28%)		
Amounts payable in respect of group relief	**3,859**	7,381
Adjustments in respect of prior periods	**(1,113)**	16
Total current tax	**2,746**	7,397
Deferred tax		
Origination / reversal of timing differences	**325**	(770)
Adjustments in respect of prior periods	**1,089**	-
Effect of decreased tax rate	**37**	-
	4,197	6,627

Group relief payments will be received or paid where losses are surrendered to or received from other group companies

The standard rate of UK corporation tax for the year is 28% *(2010 28%)* The actual current tax charge for the current year is lower, *(2010 higher)* than the standard rate for the reasons set out in the following reconciliations

	2011 £'000	2010 £'000
Profit on ordinary activities before taxation	**15,362**	24,141
Tax at the standard rate of 28% *(2010 28%)*	**4,301**	6,759
Factors affecting the charge for the period		
Expenses not deductible for tax purposes	**356**	294
Other timing differences	**(280)**	184
(Capital allowances in excess of depreciation) / Depreciation in excess of capital allowances	**(57)**	588
Income not taxable	**(461)**	(444)
Adjustment in respect of prior periods	**(1,113)**	16
	2,746	7,397

9 Dividends

	2011 £'000	2010 £'000
Interim equity dividend declared and paid	**-**	4,000

A final dividend of £48 5m was declared on 3 March 2011 This liability has not been recognised in the Balance Sheet at year end in accordance with the provisions of FRS 25

Notes *(continued)*

10 Intangible fixed assets

Group	Goodwill	Other	Total
	£'000	£'000	£'000
Cost			
At 1 March 2010	8,328	1,641	9,969
Movements	-	-	-
At 28 February 2011	**8,328**	**1,641**	**9,969**
Amortisation			
At 1 March 2010	1,108	532	1,640
Charge for the year	611	405	1,016
At 28 February 2011	**1,719**	**937**	**2,656**
Net book value at 28 February 2011	**6,609**	**704**	**7,313**
At 28 February 2010	7,220	1,109	8,329

Virgin Holidays Cruises Limited (formerly Fast Track Holidays Limited) was purchased on 8 October 2007 Goodwill arising from this purchase is amortised on a straight-line basis over 15 years, being its estimated useful economic life

On 14 December 2009 Virgin Holidays Limited purchased 100% of the issued share capital of Bales Worldwide Limited Goodwill arising from this purchase is amortised on a straight-line basis over 15 years, being its estimated useful economic life

Other intangible fixed assets also relate to the purchase of the Travel City Direct brand name and trademarks in October 2008 This is being amortised over 4 years which is its estimated useful economic life The remaining intangible fixed assets relate to website software development costs These costs are being amortised over 10 years, which is their estimated useful economic life

Notes *(continued)*

10 Intangible fixed assets *(continued)*

Company	**Other**
	£'000
Cost	
At 1 March 2010	1,614
Additions	-
At 28 February 2011	**1,614**
Amortisation	
At 1 March 2010	465
Charge for the year	405
At 28 February 2011	**871**
Net book value	**743**
At 28 February 2011	
At 28 February 2010	1,148

Other intangible fixed assets also relate to the purchase of the Travel City Direct brand name and trademarks in October 2008 This is being amortised over 4 years which is its estimated useful economic life The remaining intangible fixed assets relate to website software development costs These costs are being amortised over 10 years, which is their estimated useful economic life

Notes *(continued)*

11 Tangible fixed assets

Group

	Freehold Land and Buildings £000	Assets in the course of construction £'000	Fixtures and fittings £'000	Plant and Equipment £'000	Total £'000
Cost					
At 1 March 2010	1,629	1,897	5,495	14,883	23,904
Additions	-	5,433	172	1,318	6,923
Transfers	-	(5,387)	945	4,442	-
Disposals	-	-	(682)	(2,657)	(3,339)
At 28 February 2011	**1,629**	**1,943**	**5,930**	**17,986**	**27,488**
Depreciation					
At 1 March 2010	29	-	2,315	6,967	9,311
Charge for the year	16	-	957	2,470	3,443
Disposals	-	-	(682)	(2,657)	(3,339)
At 28 February 2011	**45**	-	**2,590**	**6,780**	**9,415**
Net book value					
At 28 February 2011	**1,584**	**1,943**	**3,340**	**11,206**	**18,073**
At 28 February 2010	1,600	1,897	3,180	7,916	14,593

Notes *(continued)*

11 Tangible fixed assets *(continued)*

Company

	Assets in the course of construction £'000	Fixtures and fittings £'000	Plant and Equipment £'000	Total £'000
Cost.				
At 1 March 2010	1,834	5,230	14,545	21,609
Additions	5,433	125	743	6,301
Transfers	(5,387)	945	4,442	-
Disposals	-	(682)	(2,657)	(3,339)
At 28 February 2011	**1,880**	**5,618**	**17,073**	**24,571**
Depreciation				
At 1 March 2010	-	2,237	6,876	9,113
Charge for the year	-	908	2,305	3,213
Disposals	-	(682)	(2,657)	(3,339)
At 28 February 2011	**-**	**2,463**	**6,524**	**8,987**
Net book value				
At 28 February 2011	**1,880**	**3,155**	**10,549**	**15,584**
At 28 February 2010	1,834	2,993	7,669	12,496

12 Fixed asset investments

Group

	Investments £'000
Cost	
At 1 March 2010	91
Additions	9
At 28 February 2011	**100**

Company

Subsidiary undertakings	**Investments £'000**
Cost	
At 1 March 2010 and 28 February 2011	**10,817**

Detail of subsidiary undertakings are given in note 22

Notes *(continued)*

13 Debtors

Amounts falling due within one year	**Group**		**Company**	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Trade debtors	**19,269**	19,355	**2,876**	2,757
Amounts owed by group undertakings	**214,868**	248,595	**214,831**	249,570
Other debtors	**23,160**	8,024	**21,909**	7,223
Prepayments and accrued income	**7,465**	13,388	**6,934**	12,151
	264,762	289,362	**246,550**	271,701

Amounts falling due after more than one year	**Group**		**Company**	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Trade debtors	**102**	74	-	-
Deferred tax asset (see note 16)	**53**	1,024	**26**	1,018
Other debtors	**1,019**	868	**1,019**	867
Prepayments and accrued income	**400**	962	**400**	962
	1,574	2,928	**1,445**	2,847

The other debtors income due after one year of £1,019,000 *(2010 £868,000)* relates to hotel deposits Prepayments falling due after one year relate to prepaid commission

14 Creditors

Amounts falling due within one year	**Group**		**Company**	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Trade creditors	**15,933**	16,089	**4,603**	2,827
Other creditors including taxation & social security	**34,172**	31,160	**30,958**	29,811
Amounts owed to fellow subsidiary undertaking	**608**	12,266	**12,526**	23,401
Accruals and deferred income	**173,675**	158,218	**157,877**	144,005
	224,388	217,733	**205,964**	200,044

Amounts falling due after more than one year	**Group**		**Company**	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Trade creditors	**161**	539	-	-

Notes *(continued)*

15 Provisions for liabilities and charges

Group

	Deferred consideration £'000	Other £'000	Deferred tax liability £'000	2011 Total £'000	2010 Total £'000
At 1 March 2010	945	303	-	1,248	2,033
Amounts provided during the year	-	3	480	483	20
Amounts utilised in the year	(945)	-	-	(945)	(694)
Unwinding of discount factor on dilapidation provision	-	18	-	18	-
Amounts released in the year	-	-	-	-	(111)
At 28 February 2011	**-**	**324**	**480**	**804**	1,248

The deferred consideration in relation the Virgin Holiday Cruises Limited (formerly Fast Track Holidays Limited) acquisition was paid in the year The other provisions relate to dilapidation provision on leasehold premises

Company

	Deferred consideration £'000	Other £'000	Deferred tax liability £'000	2011 Total £'000	2010 Total £'000
At 1 March 2010	945	303	-	1,248	2,033
Amounts provided during the year	-	(23)	472	449	20
Amounts utilised in the year	(945)	-	-	(945)	-
Unwinding of discount factor on dilapidation provision	-	18	-	18	-
Amounts released in the year	-	-	-	-	(805)
At 28 February 2011	**-**	**298**	**472**	**770**	1,248

Notes *(continued)*

16 Deferred taxation

The elements of the deferred tax asset / (liability) are as follows

Group

	2011 £'000	2010 £'000
(Capital allowances in excess of depreciation) / Depreciation in excess of capital allowances	**(480)**	725
Other timing differences	**50**	299
UK tax losses	**3**	-
Deferred tax (liability) / asset	**(427)**	1,024

	2011 £'000	2010 £'000
At 1 March 2010	**1,024**	254
Origination / reversal of timing differences	**(325)**	772
Adjustments in respect of prior periods	**(1,089)**	(2)
Effect of decreased tax rate	**(37)**	-
At 28 February 2011	**(427)**	1,024
Presented as		
Deferred tax asset (in debtors)	**53**	1,024
Provisions for liabilities and charges	**480**	-

Company

	2011 £'000	2010 £'000
(Capital allowances in excess of depreciation) / Depreciation in excess of capital allowances	**(472)**	728
Other timing differences	**26**	290
Deferred tax (liability) / asset	**(446)**	1,018

	2011 £'000	2010 £'000
At 1 March 2010	**1,018**	243
Origination / reversal of timing differences	**(330)**	765
Adjustments in respect of prior periods	**(1098)**	10
Effect of decreased tax rate	**(36)**	-
At 28 February 2011	**(446)**	1,018
Presented as		
Deferred tax asset (in debtors)	**26**	1,018
Provisions for liabilities and charges	**472**	-

The deferred tax asset is included within debtors (see note 13) and the deferred tax liability is included within provisions for liabilities and charges (see note 15)

Notes *(continued)*

16 Deferred taxation *(continued)*

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011 The first reduction in the UK corporation tax rate from 28% to 27% was enacted on 27 July 2010 and will be effective from 1 April 2011 The Budget on 23 March 2011 announced further measures to reduce the UK corporation tax rate to 23% by 2014 An additional reduction of 1% will decrease the rate of UK corporation tax from 27% to 26% with effect from 1 April 2011

These changes will reduce the company's future current tax charge accordingly The measurement of deferred tax is based upon the expected change in rate to 27% as enacted at the balance sheet date If the rate change to 26% had been substantively enacted on or before the balance sheet date it would have had the effect of reducing the deferred tax liability recognised at that date by £15,828 It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly

17 Share capital

	2011	2010
	£'000	£'000
Authorised		
2,456,250 ordinary shares of £1 each	**2,456**	2,456
Issued, called up and fully paid		
2,456,250 ordinary shares of £1 each	**2,456**	2,456

18 Reconciliation of movements in shareholders' funds

Group

	2011	2010
	£'000	£'000
Profit for the financial year	**11,165**	17,514
Dividends paid	**-**	(4,000)
Retained profit for the year	**11,165**	13,514
Opening shareholders' funds	**111,990**	98,476
Closing shareholders' funds	**123,155**	111,990

Notes *(continued)*

18 Reconciliation of movements in shareholders' funds *(continued)*

Company

	2011	2010
	£'000	£'000
Profit for the financial year	**12,494**	14,602
Dividends paid	**-**	(4,000)
Retained profit for the year	**12,494**	10,602
Opening shareholders' funds	**106,589**	95,987
Closing shareholders' funds	**119,083**	106,589

19 Operating lease commitments

As at 28 February 2011, the Group and Company had annual commitments under non-cancellable operating leases as follows

Group

	2011 Land & buildings	**2011 Other**	2010 Land & buildings	2010 Other
	£'000	**£'000**	£'000	£'000
Operating leases which expire				
Within one year	**1,076**	**-**	585	-
In the second to fifth year inclusive	**1,094**	**79**	957	91
Over five years	**598**	**-**	503	-
	2,768	**79**	2,045	91

Company

	2011 Land & buildings	**2011 Other**	2010 Land & buildings	2010 Other
	£'000	**£'000**	£'000	£'000
Operating leases which expire				
Within one year	**1,076**	**-**	585	-
In the second to fifth year inclusive	**1,094**	**79**	957	89
Over five years	**583**	**-**	425	-
	2,753	**79**	1,967	89

Notes *(continued)*

20 Commitments

A substantial proportion of operating costs are denominated in foreign currency Forward purchase contracts amounting to US$301 6m (*2010 US$nil*) outstanding at 28 February 2011 have been taken out to cover part of the exposure risk These contracts are entered into by Virgin Holidays Limited with Virgin Atlantic Airways Limited, Virgin Atlantic Airways Limited have entered into US$ 236 8m of corresponding deals with external counterparts on behalf of Virgin Holidays Limited

The fair value at 28 February 2011 of all the forward purchase contracts held by the Virgin Holidays Limited with Virgin Atlantic Airways Limited is a negative fair value of £5 7m (*2010 £nil*)

21 Contingent liabilities

The Company and its subsidiaries are party with the intermediate holding company and fellow subsidiaries to a group set-off agreement in respect of certain bank accounts

The Company is a guarantor under certain financing arrangements with other group undertakings

22 Subsidiaries and associated undertakings

The subsidiaries of the Company as at 28 February 2011 were

Subsidiaries	**Country of incorporation or registration**	**% Ordinary issued shares**	**Principal activity**
Virgin Holidays Cruises	England and Wales	100	Travel agency/ Tour operator
Bales Worldwide Limited	England and Wales	100	Tour operator
Openride Limited	England and Wales	100	Tour operator
Check-in Holidays Limited	England and Wales	100	Dormant

All subsidiaries have been included in the consolidation Virgin Holidays Limited, Virgin Holidays Cruises Limited and Openride Limited have the same accounting reference date

Bales Worldwide Limited has aligned its accounting period with that of the Virgin Holidays Group to 28 February 2011 The Bales Worldwide Limited results are for a fourteen month period from 1 January 2010 to 28 February 2011 (the inclusion of an additional two months of trading did not materially impact the Group's profit and loss account)

The proportion of voting rights held by the Group in each of its subsidiaries is the same as the proportion of ordinary shares held

23 Related party transactions

At 28 February 2011, the Group's ultimate parent and controlling company was Virgin Group Holdings Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Holdings Limited The principal beneficiaries of those trusts are Sir Richard Branson and his immediate family The shareholders of Virgin Group Holdings Limited have interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard 8

Notes *(continued)*

23 Related party transactions *(continued)*

The Company, being a wholly owned subsidiary undertaking of Virgin Atlantic Limited, has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions with entities which form part of the group or investees of the group qualifying as related parties

The following is a summary of those transactions and balances of the Group with related entities which are required to be disclosed by Financial Reporting Standard 8 All transactions are on an arm's length basis

Company name	**2011**	2010
	£'000	£ '000
Purchases from related companies		
Virgin Management Limited	**32**	98
Virgin Limited Edition Limited	**377**	353
Virgin Blue Limited	**25**	4
Virgin Enterprises Limited	**1**	-
Virgin Insight Limited	**136**	-
Virgin Limousines LLC	-	85

Revenues from related parties primarily relate to the sale of holidays and holiday vouchers

Purchases from related parties represent goods and services purchased for use within the business

Balances At the balance sheet date £5,023 was owed to Virgin Management Limited *(2010 £nil)*, £14,956 was owed to Virgin Limited Edition Limited *(2010 £1,410)*, £7,936 was owed to Virgin Blue Limited *(2010 £4,191)*, and £919 was due to Virgin Insight Limited *(2010 £nil)*

24 Ultimate holding company

As at 28 February 2011, the directors consider the ultimate holding company to be Virgin Group Holdings Limited, a company registered in the British Virgin Islands

As at 28 February 2011, Virgin Wings Limited, a company registered in England & Wales, is the parent undertaking of the largest group of which the Company is a member and for which consolidated financial statements are drawn up

As at 28 February 2011, Virgin Atlantic Limited, a company registered in England & Wales, is the parent undertaking of the smallest group of which the Company is a member and for which consolidated financial statements are drawn up

Copies of the financial statements for Virgin Wings Limited and Virgin Atlantic Limited may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff CF14 3UZ

25 Post balance sheet events

Prior to 1 March 2011, the Company had trademark licenses from Virgin Travel Group Limited for the use of the Virgin name and logo which were royalty free Since 1 March 2011, the terms of these trade mark licences have been renegotiated such that from 1 March 2011 the Company will pay royalties to a fellow subsidiary of the Company's holding company, Virgin Atlantic Limited, based on the relevant turnover for the Group