Virgin Aviation Services Limited

Directors' report and financial statements

28 February 2005

Registered number: 1927016

Directors' report and financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements of the Company for the year ended 28 February 2005. Comparative amounts are stated for the 10 months ended 29 February 2004.

Principal activities

The principal activity of the Company during the year was that of a holding company.

Directors and directors' interests

The directors of the Company during the year were as follows:

Sir RCN Branson	(Chairman; resigned 1 March 2006)
FE Brandon-Farrow	(resigned 1 March 2006)
S Murphy	(resigned 1 March 2006)
M Poole	(resigned 1 March 2006)
SB Ridgway	
K Singh	(resigned 1 March 2006)
JH Southern	
PT Tan	(resigned 1 March 2006)
TO Thoeng	(resigned 1 March 2006)
R Segran	(Alternate for TO Thoeng; resigned 1 March 2006)
KH Leong	(Alternate for K Singh; resigned 1 March 2006)

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

Review of the business and results

The profit for the year ended 28 February 2005 reflects increased levels of activity within the Company during the year and a return to normal trading conditions in comparison with the prior period. The Company was severely affected in the comparative period by the combination of global economic downturn, ongoing global terrorist threat, the war in the Middle East, and the impact of Severe Acute Respiratory Syndrome (SARS) in Asia which had a severe effect on the US freight handling operation from which the Company derives management fee income.

On 31 August 2004 the Company disposed of its 50% cargo handling joint venture investment in Plane Handling Limited to its joint venture partner, Go-Ahead Group plc. The total consideration received by the Company for the disposal was £20 million.

The owners of the US freight handling operation entered into an agreement to sell the business on 19 September 2005, with the result that from the completion of this transaction the Company will no longer be responsible for the management of this business and hence not receive further management fees.

Following the sale of the US freight handling operation, the directors will be seeking a suitable alternative business activity for the Company, but until such time the Company will be non-trading.

The results for the year are set out on page 5 of the financial statements.

Dividends

The directors do not recommend the payment of a dividend *(2004: £nil)*.

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 re-appointing auditors annually. This last resolution will lead to the continuing appointment of KPMG LLP as auditors of the Company until further notice.

By order of the Board

IMJ de Sousa
Company Secretary

120 Campden Hill Road
London
W8 7AR

24 March 2006

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss 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;
- 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 maintaining 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.

The directors, having prepared the financial statements, note that the independent auditors are required by the Companies Act 1985 to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

KPMG

PO Box 695
8 Salisbury Square
London EC4Y ABB
United Kingdom

Report of the independent auditors to the members of Virgin Aviation Services Limited

We have audited the financial statements on pages 5 to 13.

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 auditors' 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 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 as at 28 February 2005 and of its profit 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

28 March 2006

Profit and loss account

for the year ended 28 February 2005

	Note	Year ended 28 February 2005 £	10 months ended 29 February 2004 £
Administrative expenses		(616,395)	(840,861)
Exceptional administrative expenses	4	(951,465)	-
Operating loss		(1,567,860)	(840,861)
Income from shares in joint venture		-	100,000
Profit on disposal of shares in joint venture		18,922,165	-
Interest receivable and similar income	3	676,914	153,266
Profit / (loss) on ordinary activities before taxation	4	18,031,219	(587,595)
Tax on profit on ordinary activities	6	(18,156)	131,278
Retained profit / (loss) for the financial year	11	18,013,063	(456,317)

There were no recognised gains or losses in the period other than the profit for the year. The operating loss for the year arises from continuing activities.

The notes on pages 7 to 13 form part of these financial statements.

Balance sheet

at 28 February 2005

	Note	28 February 2005		29 February 2004	
		£	£	£	£
Fixed assets					
Investments	7		-		1,000,000
Current assets					
Debtors	8	**25,091,227**		5,084,046	
Creditors: amounts falling due within one year	9	**(4,369,416)**		(3,375,298)	
Net current assets			**20,721,811**		1,708,748
Total assets less current liabilities			**20,721,811**		2,708,748
Net assets			**20,721,811**		2,708,748
Capital and reserves					
Called up share capital	10		**100**		100
Profit and loss account	11		**20,721,711**		2,708,648
Equity shareholders' funds	12		**20,721,811**		2,708,748

These financial statements were approved by the Board of Directors on 24 March 2006 and were signed on its behalf by:

J H Southern
Director

The notes on pages 7 to 13 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with matters which are considered material in relation to the Company's financial statements for the period under review:

Basis of preparation

The financial statements have been prepared under the historical cost convention, and on a going concern basis, in accordance with applicable accounting standards.

Under Financial Reporting Standard 1 (Revised), the Company 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 Company's cash flows are included within the consolidated cash flow statement of that company.

Under Section 228(1) of the Companies Act 1985, the Company is exempt from the requirement to prepare and deliver consolidated accounts on the grounds that it is a wholly owned subsidiary of Virgin Atlantic Limited, a company registered in England and Wales (see note 16). Accordingly these accounts present information about the Company as an individual undertaking.

Administrative expenses

Administrative expenses comprise management fees derived from the provision of freight handling and management services, together with overhead expenses, marketing and promotional costs.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Revenues and costs and the results of foreign operations are translated at the average rate for the period. Gains or losses on translation are included in the profit and loss account.

Deferred 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 purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 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.

Notes *(continued)*

2 Staff numbers and costs

The Company had no employees during the year *(2004: nil)*.

3 Interest receivable and similar income

	Year ended 28 February 2005 £	10 months ended 29 February 2004 £
Interest receivable from group undertaking	**676,914**	153,266

4 Profit on ordinary activities before taxation

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

	Year ended 28 February 2005 £	10 months ended 29 February 2004 £
Handling management fees	**-**	561,083
Auditors' remuneration - audit	**9,000**	3,000
- other services	**65,335**	4,500
Exchange gains	**3,048**	9,289
Exceptional administrative expenses (note 5)	**951,465**	-
(Profit) on disposal of shares in joint venture	**(18,922,165)**	-

On 31 August 2004 the Company disposed of its 50% cargo handling joint venture investment in Plane Handling Limited to its joint venture partner, Go-Ahead Group plc. The total consideration received by the Company for the disposal was £20 million.

5 Post balance sheet event

On 19 September 2005 the owners of the US freight handling business that the Company manages in the United States of America entered into an agreement to sell the business. An accrual of £951,465 has been recognised in relation to the costs associated with the sale that will be recharged from another group company.

Notes *(continued)*

6 Tax on profit on ordinary activities

	Year ended 28 February 2005	10 months ended 29 February 2004
	£	£
UK corporation tax at 30% (2004: 30%):		
Amounts payable / (receivable) in respect of group relief at 30% *(2004: 30%)*	**18,156**	(131,278)
Total current tax	**18,156**	(131,278)

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

The standard rate of UK corporation tax for the period is 30% (*2004: 30%*). The actual charges for the current and previous periods are lower than the standard rate for the reasons set out in the following reconciliation:

	Year ended 29 February 2004	10 months ended 29 February 2004
	£	£
Profit / (loss) on ordinary activities before taxation	**18,031,219**	(587,595)
Tax at the standard rate at 30% (*2004: 30%*)	**5,409,366**	(176,278)
Factors affecting the tax charge for the period:		
Profit on disposal of shares in joint venture	**(5,676,650)**	-
Expenses not deductible for tax purposes	**285,440**	75,000
UK dividends received	**-**	(30,000)
Total current tax	**18,156**	(131,278)

Notes *(continued)*

7 Fixed asset investments

	Interest in joint venture £
Cost and net book value	
At 1 March 2004	1,000,000
Disposals	(1,000,000)
At 28 February 2005	-

On 31 August 2004 the Company disposed of its 50% cargo handling joint venture investment in Plane Handling Limited to its joint venture partner, Go-Ahead Group plc. The total consideration received by the Company for the disposal was £20 million.

8 Debtors

	28 February 2005 £	29 February 2004 £
Amounts owed by parent and fellow subsidiary undertakings	**25,091,227**	5,042,379
Prepayments and accrued income	-	41,667
	25,091,227	5,084,046

All amounts fall due within one year.

Notes *(continued)*

9 Creditors: amounts falling due within one year

	28 February 2005 £	29 February 2004 £
Amounts owed to parent and fellow subsidiary undertakings	**1,097,213**	651,348
Corporation tax	-	-
Group relief payable	**2,683,759**	2,665,603
Accruals and deferred income	**588,444**	58,347
	4,369,416	3,375,298

10 Share capital

	28 February 2005 £	29 February 2004 £
Authorised:		
100 ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid:		
100 ordinary shares of £1 each	**100**	100

11 *Reserves*

	Profit and loss account £
At 1 March 2004	2,708,648
Retained profit for the year	18,013,063
At 28 February 2005	**20,721,711**

Notes *(continued)*

12 Reconciliation of movement in shareholders' funds

	28 February 2005	29 February 2004
	£	£
Profit/(Loss) for the financial period	**18,013,063**	(456,317)
Dividends paid	**-**	-
Net deduction to shareholders' funds	**18,013,063**	(456,317)
Opening shareholders' funds	**2,708,748**	3,165,065
Closing shareholders' funds	**20,721,811**	2,708,748

13 Contingent liabilities

The Company is party to a group letter of set-off covering certain of its bank accounts and is a guarantor under certain financing arrangements.

14 Joint venture

The Company's share of its joint venture's retained (loss) and capital and reserves is as follows:

	28 February 2005	29 February 2004
	£	£
Retained loss for the period	**-**	(297,867)
Capital and reserves	**-**	3,484,468

On 31 August 2004 the Company disposed of its 50% cargo handling joint venture investment in Plane Handling Limited to its joint venture partner, Go-Ahead Group plc.

Notes *(continued)*

15 Related party transactions

As at 28 February 2005, 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 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 8.

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. These transactions have been disclosed in the consolidated financial statements of the intermediate holding company, Virgin Atlantic Limited which are publicly available (see note 16).

There are no other material transactions and balances by the Company with related entities which are required to be disclosed by Financial Reporting Standard 8.

16 Ultimate holding company

The ultimate holding company at 28 February 2005 was Virgin Group Investments Limited, a company registered in The British Virgin Islands.

As at 28 February 2005, Virgin Holdings Limited, formerly Ivanco (No.1) Limited, a company registered in England and 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. The smallest group of which the Company is a member and for which consolidated financial statements have been drawn up is Virgin Atlantic Limited, a company registered in England and Wales. Copies of the financial statements for both of these companies may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff CF14 3UZ.