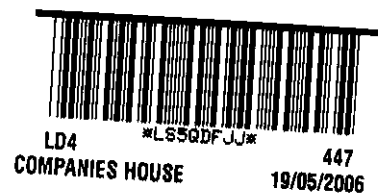


Barfair Limited

**Directors' report and consolidated
financial statements**

Registered number 3552508

31 March 2005



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2005. Comparative figures for 2004 are for a 14 months period.

Principal activities

Barfair Limited principally acts as an investment holding company in relation to its subsidiaries and other affiliated companies. The activities of the principal subsidiary companies are detailed in note 12 and principally relate to investment management services, the distribution and sale of drinks and the licensing of the Virgin brand. Other less significant activities of the subsidiaries and associated companies include property development, the operation of airships and balloons, wholesaler and retailer of books and DVD's, television production and office printing services.

Results for the period

The results for the period are set out on page 6. The loss for the period has been transferred to reserves.

On 10 May 2004 Virgin Management Limited, capitalised its debtor of £1,000,000 with Virgin Life Care Investments Limited in exchange for 2,566,421 £0.0001 ordinary shares in the company and acquired a further 2,566,421 £0.0001 ordinary shares in Virgin Life Care Investments Limited for a cash consideration of £1,000,000.

On 9 June 2004 Cricket SA, a subsidiary of Virgin Sky Investments Limited acquired Virgin Cinemas Group Limited from another group company. This was a non cash transaction.

On 16 June 2004, Virgin Management Limited acquired 49 £1 ordinary F shares in Virgin Business Solutions Limited for a cash consideration of £25,000.

On 16 June 2004 Virgin Management Limited acquired 2,146,691 £0.01 ordinary shares in Broadreach Networks Limited for a cash consideration of £121,918.

On 5 October 2004, Virgin Express Holdings plc ("VEX PLC"), of which Virgin Sky Investments Limited was the majority Shareholder, signed a binding agreement placing Virgin Express NV/SA ("VEX Belgium") and SN Brussels Airlines (DAT) under common ownership of SN Airholding Holdings NV/SA ("SN Air"). The transaction achieves a solution to both companies by addressing the problem of excess capacity and should deliver synergies, in terms of network and cost optimisation. SN Air will offer to its customers two airlines with different brands and products to satisfy the needs of the competitive market in Belgium, i.e. a flexible full service airline and a low fare airline.

On 18 October 2004, the Company acquired a further 1,993,559 £1 ordinary shares in MS Vehicle Management Limited for a cash consideration of £1, with a subsequent cash injection of £3million.

On 30 November 2004 Virgin Management Limited sold 6,211,905 A1 £0.0001 ordinary shares in Virgin Life Care Investments Limited for a cash consideration of £2,449,190 to another group company.

On 18 January 2005, the Group acquired an investment in Orgasmic Wines Limited for a cash consideration of £2.

On 31 January 2005, the Group acquired an investment in Virgin Books Limited by conversion of debt.

On 17 February 2005 the Company disposed of its preference shares in Virgin Wine Online Limited for a consideration of £1.

On 18 February 2005 Virgin Sky Investments Limited acquired a new wholly owned subsidiary, Vexair Limited ("Vexair") for a consideration of £1.

Directors' report *(continued)*

Post balance sheet events

On 12 April 2005, VEX PLC satisfied the final conditions precedent to the common ownership agreement signed on 5 October 2004 and VEX Belgium was transferred to SN Air in consideration for an issue of shares, representing 29.9% of the issued capital in SN Air.

With effect from 12 April 2005, Vexair acquired from VEX PLC its entire interest in the equity in SN Air for a consideration of €54 million ("the Vexair Sale and Purchase Agreement"). The Vexair Sale and Purchase Agreement was completed following an Extraordinary General Meeting of VEX PLC held on 9 May 2005, when VEX PLC was placed into a members' voluntary liquidation. Consequently, the debt outstanding by VEX PLC to the Company was repaid in full. As part of this agreement, Vexair also assume the liabilities of VEX PLC in connection with the interest in SN Air, including warranty and indemnity liability pursuant to the common ownership agreement entered into with SN Air on 5 October 2004. The Company subscribed for 998 new £1 ordinary shares in Vexair at an aggregate subscription price of €54 million.

Following the payment of €1 gross per share to its minority shareholders, VEX PLC was delisted from Euronext on 7 June 2005 and from NASDAQ on 21 June 2005.

On 15 September 2005, the Company disposed of its investment in Virgin Books Limited for a total consideration of £22,003.

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.

Proposed dividend

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

Political and charitable contributions

The group made no political contributions during the period. Donations to UK charities amounted to £607,000 (2004: £225,000).

Directors' report *(continued)*

Directors and directors' interests

The directors who held office during and since the period were as follows:

GD McCallum	
STM Murphy	(resigned 2 September 2005)
WE Whitehorn	
PCK McCall	(appointed 2 September 2005)

The company's ultimate parent company, Virgin Group Investments Limited, is owned by a number of trusts, the principal beneficiaries of which are Sir Richard Branson and/or his family

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of group companies.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial period.

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
12 May 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 group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 auditor, KPMG LLP, to the members of Barfair Limited

We have audited the financial statements on pages 6 to 38.

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 4, 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 group 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 group'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 31 March 2005 and of the loss of the group 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

8 Salisbury Square

London

EC4Y 8BB

16 May 2006

Consolidated profit and loss account
for the year ended 31 March 2005

	Note	Year ended 31 March 2005 £000	14 month period ended 31 March 2004 £000
Turnover			
Continuing operations	2	70,126	76,133
Acquisitions	2	50,359	-
		<hr/>	<hr/>
		120,485	76,133
Less share of joint venture turnover		(23,537)	(5,929)
		<hr/>	<hr/>
Cost of sales	2,4	96,948 (63,815)	70,204 (31,026)
		<hr/>	<hr/>
Gross profit		33,133	39,178
Distribution costs		(865)	(783)
Administrative expenses (<i>exceptional costs of £ 232,137,000; 2004: £147,084,000</i>)	3	(291,204)	(217,111)
Other operating income		1,500	2,184
		<hr/>	<hr/>
Group operating loss			
Continuing operations	2	(226,602)	(176,532)
Acquisitions	2	(30,834)	-
		<hr/>	<hr/>
	2,4	(257,436)	(176,532)
Share of operating profit of associate		1,165	-
Share of operating loss of joint venture		(482)	(203)
		<hr/>	<hr/>
Total operating loss		(256,753)	(176,735)
Income from associates		-	-
Loss on disposal of investments		(9,492)	(137)
Loss on disposal of fixed assets – continuing operations		-	(233)
		<hr/>	<hr/>
Loss before interest and taxation		(266,245)	(177,105)
Other interest receivable and similar income	7	80,732	51,818
Interest payable and similar charges	8	(68,335)	(41,268)
		<hr/>	<hr/>
Loss on ordinary activities before taxation	3	(253,848)	(166,555)
Tax on loss on ordinary activities	9	2,585	(2,241)
		<hr/>	<hr/>
Loss on ordinary activities after taxation		(251,263)	(168,796)
Minority interest	20	808	(15)
		<hr/>	<hr/>
Loss for the financial year		(250,455)	(168,811)
		<hr/>	<hr/>

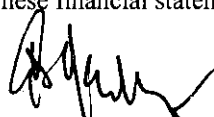
The notes on pages 11 to 38 form part of these financial statements.

Consolidated balance sheet
at 31 March 2005

	<i>Note</i>	31 March 2005	31 March 2004
		£000	£000
Fixed assets			
Intangible assets	10	9,114	1,036
Negative goodwill	10	(50,735)	-
Tangible assets	11	18,913	16,915
Investments	12	128,153	8,129
		<hr/>	<hr/>
		105,445	26,080
Current assets			
Stocks	13	13,857	1,763
Debtors	14	434,602	278,066
Cash at bank and in hand		21,800	10,894
		<hr/>	<hr/>
		470,259	290,723
Creditors: amounts falling due within one year	15	(1,047,879)	(657,342)
		<hr/>	<hr/>
Net current liabilities		(577,620)	(366,619)
		<hr/>	<hr/>
Total assets less current liabilities		(472,175)	(340,539)
Creditors: amounts falling due after more than one year	16	(17,850)	(8,199)
Provisions for liabilities and charges	17	(5,991)	(5,135)
		<hr/>	<hr/>
Net liabilities		(496,016)	(353,873)
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	18	2	1
Share premium	19	276,487	175,271
Other reserves	19	54,313	54,313
Profit and loss account	19	(831,099)	(583,857)
		<hr/>	<hr/>
Equity shareholders' deficit		(500,297)	(354,272)
Minority interests	20	4,281	399
		<hr/>	<hr/>
		(496,016)	(353,873)
		<hr/>	<hr/>

The notes on pages 11 to 38 form part of these financial statements.

These financial statements were approved by the board of directors on 12 May 2006 and were signed on its behalf by:

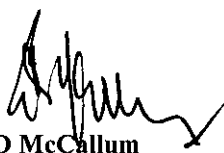

GD McCallum
Director

Company balance sheet
at 31 March 2005

	<i>Note</i>	31 March 2005		31 March 2004	
		£000	£000	£000	£000
Fixed assets					
Investments	12		113,036		8,349
Current assets					
Debtors	14	287,426		274,583	
Cash at bank and in hand		3,751		39,468	
		<u>291,177</u>		<u>314,051</u>	
Creditors: amounts falling due within one year	15	<u>(845,626)</u>		<u>(651,421)</u>	
Net current liabilities			(554,449)		(337,370)
Net liabilities			(441,413)		(329,021)
Capital and reserves					
Called up share capital	18		2		1
Share premium	19		276,487		175,271
Profit and loss account	19		<u>(717,902)</u>		<u>(504,293)</u>
Equity shareholders' deficit			(441,413)		(329,021)

The notes on pages 11 to 38 form part of these financial statements.

These financial statements were approved by the board of directors on 12 May 2006 and were signed on its behalf by:


GD McCallum
Director

Consolidated cash flow statement
for the year ended 31 March 2005

	<i>Notes</i>	Year ended 31 March 2005 £000	14 month period ended 31 March 2004 £000
Cash flow from operating activities	24	(109,059)	(54,243)
Returns on investments and servicing of finance	25	(14,712)	11,161
Capital expenditure and financial investment	25	(74,750)	(86,255)
		<hr/>	<hr/>
Acquisitions and disposals	25	(198,521) 5,716	(129,337) (449)
		<hr/>	<hr/>
Cash outflow before financing		(192,805)	(129,786)
Financing	25	159,430	130,481
		<hr/>	<hr/>
(Decrease)/increase in cash in the year		(33,375)	695
		<hr/>	<hr/>

Reconciliation of net cash flow to movement in net debt
for the year ended 31 March 2005

	Year ended 31 March 2005 £000	14 month period ended 31 March 2004 £000
(Decrease)/increase in cash in the year	(33,375)	695
Cash outflow from increase in debt and lease financing	(159,430)	(130,481)
	<hr/>	<hr/>
Change in net debt resulting from cash flows	(192,805)	(129,786)
Other non cash items:		
Reclassification of group balances	(179,684)	(217,837)
Accrued interest	(143,111)	(15,900)
Foreign exchange	19	1,672
	<hr/>	<hr/>
Movement in net debt in the year	(515,581)	(361,851)
Net debt at the start of the year	(429,045)	(67,194)
	<hr/>	<hr/>
Net debt at the end of the year	(944,626)	(429,045)
	<hr/>	<hr/>

The notes on pages 11 to 38 form part of these financial statements.

Consolidated statement of total recognised gains and losses
for the year ended 31 March 2005

	Year ended 31 March 2005 £000 Group	14 month period ended 31 March 2004 £000 Group
Loss for the financial year		
Group	(252,401)	(168,591)
Associate profit / (loss)	1,946	(220)
	<hr/>	<hr/>
	(250,455)	(168,811)
Currency translation differences on net foreign currency investments	497	1,838
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	(249,958)	(166,973)
	<hr/>	<hr/>

Reconciliations of movements in shareholders' deficit
for the year ended 31 March 2005

	Year ended 31 March 2005 £000 Group	Year ended 31 March 2005 £000 Company	14 month period ended 31 March 2004 £000 Group	14 month period ended 31 March 2004 £000 Company
Total recognised gains and losses relating to the year	(249,958)	(213,609)	(166,973)	(128,772)
Issue of shares	101,217	101,217	-	-
Other	2,716	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Increase in shareholders deficit	(146,025)	(112,392)	(166,973)	(128,772)
Opening shareholders' deficit	(354,272)	(329,021)	(187,299)	(200,249)
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' deficit	(500,297)	(441,413)	(354,272)	(329,021)
	<hr/>	<hr/>	<hr/>	<hr/>

The notes on pages 11 to 38 form part of these financial statements.

Notes

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation

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

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 31 March 2005. Virgin Express Holdings plc has been consolidated as at December 2004 following the acquisition of Virgin Sky Investments Limited in January 2005. On 30 June 1998 Arfind Limited (formerly Virgin Travel Investments Limited) went into a members' voluntary winding up, pursuant to which certain subsidiaries were transferred to the company. This reconstruction has been accounted for using merger accounting principles, although it does not meet all the conditions of the Companies Act 1985 for merger accounting. The reconstruction did not alter the relative rights of the ultimate shareholders of the company's subsidiaries and hence it is considered inappropriate to account for the transaction using acquisition accounting principles, which would have been the required treatment if the Companies Act had not been overridden. The effect of applying acquisition accounting has not been quantified, as it is not considered practical to obtain all the valuations that would be necessary to make such quantifications.

For all other subsidiaries the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the group has a long-term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the group has a long-term interest and over which it exercises joint control. The group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

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

Goodwill and investments

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. The directors consider each acquisition separately for the purposes of determining the appropriate amortisation period. All goodwill is currently amortised over 20 years.

On the subsequent disposal or termination of a business the profit or loss on disposal or termination is calculated after charging (crediting) the unamortised amount of any related goodwill (negative goodwill).

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

Notes (continued)

Accounting policies (continued)

Tangible 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:

Freehold buildings	-	50 years
Leasehold land and buildings	-	life of lease
Plant and machinery	-	3 to 5 years
Fixture and fittings	-	4 to 10 years
Motor vehicles	-	3 to 4 years

No depreciation is provided on freehold land.

Intangible fixed assets

Intangible fixed assets purchased separately from a business are capitalised at their cost. Intangible assets acquired as part of an acquisition are capitalised at their fair value where it can be measure reliably. Concessions, patents, licences and trademarks purchased by the company are amortised to nil by equal annual instalments over their useful economic lives, generally the respective unexpired periods.

Stocks

Stocks including stocks of tax free goods and catering supplies are valued at the lower of cost and net realisable value.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. 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.

The assets and liabilities and profit and loss accounts of overseas subsidiary undertakings and associated undertakings are translated at the closing exchange rates. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Post retirement benefits

The group operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

Notes (continued)

Accounting policies (continued)

Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

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

Aircraft and engine maintenance costs

Routine maintenance costs including annual airframe checks are written off to the profit and loss account as incurred. Heavy maintenance and engine overhaul costs are provided for on a flight hour basis.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers.

Turnover also comprises revenue from scheduled services, including passenger ticket sales and the sale of seat allocations under certain shared service agreements and charter services. Revenue is recognised on the date of flight departure. Revenue relating to flights or services performed after the accounting date, together with any commission thereon, is carried forward as deferred income. Commissions are accounted for on sales and marketing expenses within cost of sales.

2 Analysis of continuing and discontinued operations

	Year ended 31 March 2005			14 month period ended 31 March 2004	
	Acquisitions £000	Continuing £000	Total £000	Continuing £000	Total £000
Turnover	50,359	70,126	120,485	76,133	76,133
Less share of joint venture turnover	-	(23,537)	(23,537)	(5,929)	(5,929)
	<u>50,359</u>	<u>46,589</u>	<u>96,948</u>	<u>70,204</u>	<u>70,204</u>
Cost of sales	(48,599)	(15,216)	(63,815)	(31,026)	(31,026)
Gross profit	<u>1,760</u>	<u>31,373</u>	<u>33,133</u>	<u>39,178</u>	<u>39,178</u>
Distribution costs	(523)	(342)	(865)	(783)	(783)
Administrative expenses	(32,084)	(259,120)	(291,204)	(217,111)	(217,111)
Other operating income	13	1,487	1,500	2,184	2,184
Group operating loss	<u>(30,834)</u>	<u>(226,602)</u>	<u>(257,436)</u>	<u>(176,532)</u>	<u>(176,532)</u>
Share of operating profit / (loss) of joint venture and associates	1,165	(482)	683	(203)	(203)
Total loss	<u>(29,669)</u>	<u>(227,084)</u>	<u>(256,753)</u>	<u>(176,735)</u>	<u>(176,735)</u>

Notes (continued)

3 Loss on ordinary activities before taxation

	Year ended 31 March 2005 £000	14 month period ended 31 March 2004 £000
<i>Loss on ordinary activities before taxation is stated</i>		
<i>after charging/(crediting)</i>		
Auditors' remuneration:		
Group - audit	363	357
- fees paid to the auditors and its associates in respect of other services	-	8
Company - audit	24	43
Depreciation of tangible fixed assets	1,705	2,165
Amortisation of negative goodwill on intangible fixed assets	(425)	1,972
Amortisation of positive goodwill and other intangible fixed assets	1,024	
Impairment of goodwill on intangible assets	4,555	-
Amortisation of goodwill on fixed assets investments	436	137
Hire of plant and machinery – rentals payable under operating leases	284	90
Hire of other assets – operating leases	1,117	1,808
Exchange differences	(952)	-
Rent receivable	840	1,102

The following exceptional items have been charged:

Impairment of goodwill and intangible fixed assets	4,555	24,920
Provision against amounts due from related undertakings	225,660	121,333
Impairment of tangible fixed assets	1,802	831
Impairment of investments	120	-

Notes (continued)

4 Analysis of turnover, operating loss and net liabilities

Turnover, operating loss and net assets are analysed below:

<i>By activity</i>	Turnover Year ended 31 March 2005 £000	Group operating (loss)/profit Year ended 31 March 2005 £000	Turnover 14 month period ended 31 March 2004 £000	Group operating (loss)/profit 14 month period ended 31 March 2004 £000
Wholesale and retail	88,447	(4,816)	27,511	1,366
Property	-	(23,412)	-	(637)
Clubs and hotels	5,095	576	5,967	580
Merchandising and event management	4,564	(509)	19,161	(1,433)
Trademark licensing	11,643	8,479	12,428	10,862
Balloons and airships	-	(13)	570	598
Management services and other	10,736	(237,058)	10,496	(188,071)
	<hr/>	<hr/>	<hr/>	<hr/>
	120,485	(256,753)	76,133	(176,735)
Less share of associate revenue/operating loss/(profit)	(23,537)	(683)	(5,929)	203
	<hr/>	<hr/>	<hr/>	<hr/>
	96,948	(257,436)	70,204	(176,532)
	<hr/>	<hr/>	<hr/>	<hr/>

Management services and other includes provisions against amounts due from related parties and a charge for the impairment of goodwill as described in note 10 below.

Notes (continued)

4 Analysis of turnover, operating loss and net liabilities (continued)

Net liabilities

	31 March 2005 £000	31 March 2004 £000
Wholesale and retail	(21,167)	(91,655)
Property	1,378	(4,503)
Clubs and hotels	5,155	599
Merchandising and event management	(3,562)	(4,589)
Trademark licensing	1,848	62,137
Balloons and airships	(25,765)	(2,971)
Limobikes & Limousines	-	-
Management services and other	(453,903)	(312,891)
	<u>(496,016)</u>	<u>(353,873)</u>

By geographical market

	Turnover Year ended 31 March 2005 £000	Group operating loss Year ended 31 March 2005 £000	Turnover 14 month period ended 31 March 2004 £000	Group operating loss 14 month period ended 31 March 2004 £000
UK and Ireland	107,974	(247,769)	60,926	(171,313)
Rest of Europe	3,942	(851)	4,996	2,025
Rest of World	8,569	(8,133)	10,211	(7,447)
	<u>120,485</u>	<u>(256,753)</u>	<u>76,133</u>	<u>(176,735)</u>
Less share of associate revenue/operating (loss)/profit	(23,537)	(683)	(5,929)	203
	<u>96,948</u>	<u>(257,436)</u>	<u>70,204</u>	<u>(176,532)</u>

Net liabilities

	31 March 2005 £000	31 March 2004 £000
UK and Ireland	(599,382)	(375,728)
Rest of Europe	(20,743)	2,558
Rest of World	124,109	19,297
	<u>(496,016)</u>	<u>(353,873)</u>

Notes (continued)

5 Remuneration of directors

	Year ended 31 March 2005 £000	14 month period 31 March 2004 £000
Directors' emoluments	1,106	973
Company contributions to money purchase pension schemes	94	98
	<u>1,200</u>	<u>1,071</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £386,268 (2004: £368,477). No company pension contributions were made on his behalf.

	Number of directors	
	Year ended 31 March 2005	14 month period ended 31 March 2004
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	<u>3</u>	<u>3</u>

6 Staff numbers and costs

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

	Number of employees	
	Year ended 31 March 2005	14 month period ended 31 March 2004
Management and administration	252	238
Selling and distribution	188	97
Operations and other	211	120
	<u>651</u>	<u>455</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2005 £000	14 month period ended 31 March 2004 £000
Wages and salaries	20,292	19,247
Social security costs	1,591	1,821
Other pension costs	397	432
Other	3	772
	<u>22,283</u>	<u>22,272</u>

Notes (continued)

7 Other interest receivable and similar income

	Year ended 31 March 2005	14 month period ended 31 March 2004
	£000	£000
Bank interest	2,336	923
Other interest	904	229
Foreign exchange gains	2,889	3,182
Interest receivable from related parties	73,919	47,484
Share of associate	684	-
	<u>80,732</u>	<u>51,818</u>

8 Interest payable and similar charges

	Year ended 31 March 2005	14 month period ended 31 March 2004
	£000	£000
On bank loans and overdrafts	1,752	6,206
Other interest	2,743	5,644
Finance charges payable in respect of finance leases and hire purchase contracts	14	12
Foreign exchange losses	503	1,952
Interest payable to related parties	62,527	27,437
Share of associate	796	17
	<u>68,335</u>	<u>41,268</u>

9 Taxation

	Year ended 31 March 2005	14 month period ended 31 March 2004
	£000	£000
<i>UK corporation tax:</i>		
Current tax on income for the period	-	3,010
Adjusted in respect of prior periods	(447)	(129)
	<u>(447)</u>	<u>2,881</u>
Foreign tax	1,092	144
	<u>645</u>	<u>3,025</u>
Total current tax	645	3,025
Deferred tax for period	(3,185)	(784)
Adjusted in respect of prior periods	(45)	-
	<u>(2,585)</u>	<u>2,241</u>
Tax (credit)/charge on loss on ordinary activities	(2,585)	2,241

Notes (continued)

9 Taxation (continued)

Factors affecting the tax (credit)/charge for the current period

The current tax (credit)/charge for the period is higher (2004:higher) than the standard rate of corporation tax in the UK 30% (2004:30%). The differences are explained below.

	Year ended 31 March 2005 £000	14 month period ended 31 March 2004 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(253,848)	(166,555)
	<hr/>	<hr/>
Current tax at 30% (2004:30%)	(76,154)	(49,966)
<i>Effects of:</i>		
Capital allowances for period in excess of depreciation	65	(125)
Other short term timing differences	5,678	767
Unrelieved overseas tax losses	841	837
Unrelieved UK tax losses	659	144
Income not subject to tax	(21,344)	-
Utilisation of tax losses brought forward	(2,044)	(42)
Adjustment in respect of prior years	(25)	(129)
Expenses not deductible for tax purposes	92,897	51,539
High/low tax rates on overseas earnings	68	-
Foreign tax suffered	4	-
	<hr/>	<hr/>
	645	3,025
	<hr/>	<hr/>

Factors that may affect future tax losses

As at 31 March 2005, the group had tax losses and other timing differences available to carry forward of approximately £184 million (2004: £124 million) 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 differences can be deducted.

The amounts provided for deferred taxation and the amounts not provided are set out below:

	31 March 2005 Provided £000	31 March 2005 Unprovided £000	31 March 2004 Provided £000	31 March 2004 Unprovided £000
Accelerated capital allowances	721	(1,369)	1,060	(1,297)
Short term timing differences	(7,245)	(6,708)	(3,872)	(26)
UK tax losses	(103)	(35,128)	(501)	(35,899)
Non-UK tax losses	(483)	(11,903)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	(7,110)	(55,108)	(3,313)	(37,222)
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

10 Intangible fixed assets

Group	Negative Goodwill £000	Goodwill £000	Other Intangible assets £000	Total positive goodwill and other intangible assets £000
Cost				
At 1 April 2004	(497)	62,463	806	63,269
Additions (see note 28)	(50,955)	13,658	-	13,658
Disposals	(205)	-	(1)	(1)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	(51,657)	76,121	805	76,926
	<hr/>	<hr/>	<hr/>	<hr/>
Amortisation and impairments				
At 1 April 2004	(497)	62,073	160	62,233
(Credited)/charged in period	(425)	681	343	1,024
Impairment	-	4,555	-	4,555
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	(922)	67,309	503	67,812
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 March 2005	(50,735)	8,812	302	9,114
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	-	390	646	1,036
	<hr/>	<hr/>	<hr/>	<hr/>

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. Following a review of the useful economic life of the goodwill associated with the acquisition of Voyager Investments (BVI) Limited and The Virgin Trading Group Limited, the directors consider an impairment charge is appropriate.

Following a review of the useful economic life of the goodwill the directors consider an amortisation period of 20 years appropriate. Goodwill on Virgin Books is being amortised over 12 months.

Where evidence of goodwill impairment has arisen, the impairment charge was taken to the profit and loss account.

Notes (continued)

11 Tangible fixed assets

Group	Freehold and leasehold land and buildings £000	Plant and equipment £000	Fixtures, fittings and office equipment £000	Aircraft maintenance £000	Motor vehicles £000	Total £000
Cost or valuation						
At 1 April 2004	16,264	4,406	4,764	-	391	25,825
Additions	438	872	807	-	107	2,224
Disposals	-	(6)	(688)	-	(118)	(812)
Reclassifications	-	-	53	-	-	53
Acquired with subsidiary	1,193	1,937	225	259	-	3,614
Exchange differences	(312)	(77)	(15)	-	(10)	(414)
At 31 March 2005	17,583	7,132	5,146	259	370	30,490
Depreciation						
At 1 April 2004	1,468	3,503	3,626	-	313	8,910
Charge for period	474	594	554	-	83	1,705
Impairment	1,153	-	649	-	-	1,802
Disposals	-	(2)	(657)	-	(111)	(770)
Reclassifications	-	-	53	-	-	53
Exchange differences	(40)	(63)	(13)	-	(7)	(123)
At 31 March 2005	3,055	4,032	4,212	-	278	11,577
Net book value						
At 31 March 2005	14,528	3,100	934	259	92	18,913
At 31 March 2004	14,796	903	1,138	-	78	16,915

Included in the total net book value of motor vehicles is £155,000 (2004: £109,000) in respect of assets held under finance leases (and similar hire purchase contracts). Depreciation for the period on these assets is £83,000 (2004: £66,000).

Notes (continued)

11 Tangible fixed assets (continued)

The split between freehold and leasehold land and buildings is shown below:

	31 March 2005 £000	31 March 2004 £000
Net book value		
Freehold land and building	9,812	10,039
Leasehold land and buildings	4,716	4,757
	<hr/> 14,528 <hr/>	<hr/> 14,796 <hr/>
Depreciation charged in the period		
Freehold land and building	342	379
Leasehold land and buildings	132	261
	<hr/> 474 <hr/>	<hr/> 640 <hr/>

Notes (continued)

12 Fixed asset investments

Group	Interest in joint venture undertakings £000	Interests in associated undertakings £000	Other unlisted investments £000	Total investments £000
Cost				
At 1 April 2004	2,500	480	6,693	9,673
Reclassifications	(2,500)	-	-	(2,500)
Additions	-	118,557	11,413	129,970
Disposals	-	-	(9,492)	(9,492)
At 31 March 2005	-	119,037	8,614	127,651
Share of post acquisition reserves				
Balance at 1 April 2004	(220)	-	-	(220)
Share of profit for the period	(402)	1,522	-	1,120
Share of interest payable	(61)	(736)	-	(797)
Share of interest receivable	-	684	-	684
Executive share option charge	-	1,346	-	1,346
Share of tax	-	(549)	-	(549)
Amortisation of goodwill	(80)	(356)	-	(436)
Reclassification	763	-	-	763
Exchange differences	-	35	-	35
At 31 March 2005	-	1,946	-	1,946
Impairments				
Balance at 1 April 2004	-	(480)	(844)	(1,324)
Charges for the period	-	-	(120)	(120)
At 31 March 2005	-	(480)	(964)	(1,444)
Net book value				
At 31 March 2005	-	120,503	7,650	128,153
At 31 March 2004	2,280	-	5,849	8,129

On 21 January 2004, the Group acquired its investment in WW Science Technology Limited for a consideration of £287 (see note 31).

On 18 October 2004, the Company increased its 25% to a 53% shareholding in MS Vehicle Management Limited for a cash consideration of £1. (see note 29)

On 14 December 2004, the Group acquired an investment, comprising 51.86% of equity, in Virgin Life (Pty) Limited formerly Winning Wellness (Pty) Limited for a consideration of £2,424,490, which included a £123,858 debenture. The remaining 48.14% was acquired after the financial year end and is not included in the above statement. (see note 31)

On 9 February 2005 the Group acquired preference shares in Virgin Wine Online Limited for £9,492,000. On 17 February 2005 the Group disposed of its holding in Virgin Wine Online Limited.

During the period the Group acquired an investment in the LoveSac Corporation by acquiring 4,375,000 Series A Preferred Stock to the value of £ 1,831,000.

On 20 January 2005, the Group acquired an investment in Virgin Sky Investments Limited for a consideration of £334,254,000. (see note 30)

Notes *(continued)*

12 Fixed asset investments *(continued)*

On 14 January 2005, the Group acquired an investment in Virgin Books Limited for a consideration of £2. (see note 28)

Company	Shares in group undertaking £000
<i>Cost</i>	
At 1 April 2004	8,618
Disposals	(9,492)
Additions	123,587
	<hr/>
At 31 March 2005	122,713
	<hr/>
<i>Provisions</i>	
At 1 April 2004	(269)
Charge in period	(9,408)
	<hr/>
At 1 March 2005	(9,677)
	<hr/>
<i>Net book value</i>	
At 31 March 2005	113,036
	<hr/> <hr/>
At 31 March 2004	8,349
	<hr/> <hr/>

Notes (continued)

12 Fixed asset investments (continued)

The principal undertakings in which the group's interest at the period end is more than 20% are as follows:

	Country of Registration	Principal Activity	Holding	Type of share
Subsidiary undertakings				
Vanson Developments Limited	England & Wales	Investment holding company	100%	Ordinary £1 shares
Vanson Group Holdings Limited (formerly Virgin Television Limited, formerly Candidoak Limited)	England & Wales	Investment holding company	100%	Ordinary £1 shares £1 Redeemable Preference shares
Vanson (Crawley) Limited	England & Wales	Investment holding company	100%	Ordinary £1 shares
Avidbuild Limited	England & Wales	Investment holding company	100%	Ordinary £1 shares
Vanson (Carmarthen) Limited	England & Wales	Investment holding company	100%	Ordinary £1 shares
Vanson Hotels Limited	England & Wales	Investment holding company	100%	Ordinary £1 shares
Vanburg Limited	England & Wales	Investment holding company	100%	Ordinary £1 shares
122 Wigmore Street Limited	England & Wales	Investment holding company	100%	Ordinary £1 shares
Vanson (Crawley) No2 Limited	England & Wales	Investment holding company	100%	Ordinary £1 shares
Actionsquare Limited	England & Wales	Investment holding company	100%	£1 ordinary shares £1 deferred shares £1 non cumulative preference shares £1 preferred ordinary shares
The Virgin Trading Group Limited*	England & Wales	Holding company	100%	Ordinary 0.01p shares
The Virgin Drinks Company Limited	England & Wales	Wholesaler of Drinks	100%	Ordinary £1 shares
Virgin Management Limited	England & Wales	Investment and management services company	100%	Ordinary 10p shares
Virgin Bride Limited	England & Wales	Bridal services	100%	Ordinary £1 shares
Virgin Group Limited	England & Wales	Investment holding company	100%	Ordinary 10p shares
Voyager Group Limited	England & Wales	Investment holding company	100%	Ordinary 10p shares £1 Redeemable Preference shares
Virgin Projects Limited	England & Wales	Print, procurement and event organisation	95.24%	Ordinary 1p shares
Virgin Mobile USA Holdings Limited (formerly Virgin Limobike Limited)	England & Wales	Motorbike taxi's	100%	Ordinary £1 shares
Virgin Radio France Holdings Limited (formerly Virgin Radio International Limited)	England & Wales	Investment holding company	100%	Ordinary £1 shares
120 Campden Hill Road Limited	England & Wales	Property company	100%	Ordinary £1 shares
Virgin Enterprises Limited	England & Wales	Licensing of Virgin brand	100%	Ordinary £1 shares
S L Insurance Limited	Guernsey	Insurance and reinsurance business	100%	Ordinary US\$1 shares
Virgin Vouchers Limited	England & Wales	Vendor of denominated vouchers	100%	Ordinary £1 shares
Necker Island (BVI) Limited	British Virgin Islands	Hotel Operator	100%	Ordinary US\$1 shares
Exitium Limited**	England & Wales	Investment company	60.85%	Ordinary 1p shares
Virgin Business Solutions Limited	England & Wales	Telecommunications provider	51% 49%	Ordinary V £1 shares Ordinary F £1 shares
Sound and Media Limited	England & Wales	Wholesaler and retailer of books and DVDs	98.78% 100%	Ordinary £1 shares Convertible, redeemable £1 preference shares
Virgin Life Care Investments Limited (formerly Body IQ Investments Limited)	England & Wales	Health/life insurance provider	80.21%	Ordinary £0.0001 A1 shares Ordinary £0.0001 A2 shares

Notes (continued)

12 Fixed asset investments (continued)

	Country of Registration	Principal Activity	Holding	Type of share
<i>Subsidiary undertakings</i>				
Virgin Limousines LLC	USA	Limousine service	65%	Ordinary US\$1 shares
Qui FM SAS	France	Radio Station	60%	Ordinary €1 shares
Virgin Mobile Holdings Pte Limited	Singapore	Mobile phones	100%	Ordinary \$1A class shares Ordinary \$1 B class shares Common stock 1cent value
Virgin USA Inc	USA	Investment and management services company	100%	
Virgin Balloon Flights Limited	England & Wales	Air transport company	100%	Ordinary £1 shares
Virgin Sky Investments Limited	England & Wales	Investment holding company	100%	Ordinary £1 shares
Cricket SA	Switzerland	Investment holding company	100%	Ordinary CHF 100 shares
Virgin Express Holdings plc	England & Wales	Airline operations	87.8%	Deferred Ordinary £1 shares
Virgin Express Holdings plc	England & Wales	Airline operations	0.84%	Ordinary €0.010 shares American depository receipts €0.010
Virgin Holdings SA	Switzerland	Investment holding company	100%	CHF 100 Class A Preference shares CHF 100 Class B ordinary shares
VHSA Holdings Limited	England & Wales	Investment holding company	100%	£1 Ordinary shares
VEL Holdings	England & Wales	Investment holding company	100%	£1 Ordinary shares
Millevere Holdings Limited	British Virgin Islands	Investment holding company	100%	Ordinary US\$1 shares
MS Vehicle Management Limited	England & Wales	Car sale company	53%	Ordinary £1 shares
VML 2 Limited	England & Wales	Investment holding company	100%	Ordinary US\$ 1 shares
<i>Associate</i>				
Virgin Blue Holdings Limited	Australia	Airline Operation	25.5%	Australian ordinary shares
<i>Participating interest</i>				
Silkplan Limited	England & Wales	Property Developer	33%	Ordinary £1 shares

* Direct investment held by Barfair Limited

** 61% of Exitium is held directly by Barfair Limited and a further 8% is held indirectly. All of the above companies have been consolidated in these financial statements.

13 Stocks

	31 March 2005 £000	31 March 2004 £000
Group		
Raw materials and consumables	291	148
Work in progress	145	125
Finished goods and goods for resale	13,421	1,490
	<hr/>	<hr/>
	13,857	1,763
	<hr/>	<hr/>

Notes (continued)

14 Debtors

	Group 31 March 2005 £000	Company 31 March 2005 £000	Group 31 March 2004 £000	Company 31 March 2004 £000
Trade debtors	16,581	-	5,920	-
Amounts owed by subsidiary undertakings	-	40,963	-	30,097
Amounts owed by related undertakings (see note 27)	326,264	211,013	226,750	214,324
Amounts owed by undertakings in which the company has a participating interest	28,374	28,374	26,516	26,238
Other debtors	41,550	-	8,021	-
Group relief debtor	4,729	-	4,651	-
Deferred tax asset	7,110	7,076	3,313	3,873
Prepayments and accrued income	9,994	-	2,895	51
	<u>434,602</u>	<u>287,426</u>	<u>278,066</u>	<u>274,583</u>

15 Creditors: amounts falling due within one year

	Group 31 March 2005 £000	Company 31 March 2005 £000	Group 31 March 2004 £000	Company 31 March 2004 £000
Bank loans and overdrafts	50,006	-	5,325	-
Finance lease obligations	381	-	-	-
Trade creditors	31,796	-	9,059	1
Amounts owed to subsidiary undertakings	-	201,450	-	204,665
Amounts owed to related undertakings (see note 27)	868,436	613,264	612,170	420,136
Corporation tax	10,269	30,698	13,898	26,477
Group relief creditor	9,721	-	-	-
Other creditors	55,839	11	9,625	-
Accruals and deferred income	21,431	203	7,265	142
	<u>1,047,879</u>	<u>845,626</u>	<u>657,342</u>	<u>651,421</u>

Notes (continued)

16 Creditors: amounts falling due after more than one year

	31 March 2005 £000	31 March 2004 £000
Group		
Bank loans	7,563	8,077
Amounts owed to group undertakings	10,115	-
Other creditors	22	13
Finance lease obligations	138	109
Accruals and prepaid income	12	-
	<u>17,850</u>	<u>8,199</u>

Analysis of bank loans and overdrafts as falling due:

	31 March 2005 £000	31 March 2004 £000
Group		
Loans can be analysed as falling due:		
In one year or less, or on demand	50,006	5,325
Between one and two years	427	434
Between two and five years	1,453	1,432
In five years or more	5,683	6,211
	<u>57,569</u>	<u>13,402</u>

Analysis of finance leases:

	31 March 2005 £000	31 March 2004 £000
Group		
Finance leases can be analysed as falling due:		
In one year or less, or on demand	431	-
Between one and two years	49	78
Between two and five years	39	31
	<u>519</u>	<u>109</u>

Notes (continued)

17 Provisions for liabilities and charges

	Aircraft maintenance £000	Provision for closure costs £000	Other provisions £000	Total £000
Group				
At 1 April 2004	-	1,160	3,975	5,135
Acquired with subsidiary (see note 30)	3,376	-	317	3,693
Further provisions and writebacks	-	35	(354)	(319)
Utilised in period	-	-	(1,493)	(1,493)
Amounts released unused	-	(1,025)	-	(1,025)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	3,376	170	2,445	5,991
	<hr/>	<hr/>	<hr/>	<hr/>

18 Called up share capital

	31 March 2005 £000	31 March 2004 £000
Authorised		
2,000 (2004: 1,000) Ordinary shares of £1 each	2	1
	<hr/>	<hr/>
Allotted, called up and fully paid		
2,000 (2004: 1,000) Ordinary shares of £1 each	2	1
	<hr/>	<hr/>

On 17 January 2005, the Company issued 1,000 of £1 shares for a total consideration of £101,217,000.

Notes (continued)

19 Share premium and reserves

Group	Share premium £000	Merger reserve £000	Profit and loss account £000
At 1 April 2004	175,271	54,313	(583,857)
Share issues	101,216	-	-
Loss for the year	-	-	(250,455)
Other movements	-	-	2,716
Exchange movements	-	-	497
At 31 March 2005	<u>276,487</u>	<u>54,313</u>	<u>(831,099)</u>

Company	Share premium £000	Profit and loss account £000
At 1 April 2004	175,271	(504,293)
Share issues	101,216	-
Accumulated loss for the year	-	(213,609)
At 31 March 2005	<u>276,487</u>	<u>(717,902)</u>

20 Minority interests

Group	31 March 2005 £000	31 March 2004 £000
At 1 April 2004	399	340
On acquisition	4,676	24
Share of (loss)/profit for year	(808)	15
Foreign exchange	14	20
At 31 March 2005	<u>4,281</u>	<u>399</u>

No adjustment has been made for minority interest in subsidiaries with net liabilities unless the minority shareholders are formally required to fund those net liabilities in proportion to their share of the equity of the company concerned.

Notes (continued)

21 Contingent liabilities

The company is party to a group overdraft facility of £85 million, all of which is repayable on demand. The Group provides guarantees for other group and related party undertakings. A number of these guarantees cover operating lease commitments in relation to 19 properties owned by Virgin Active Group Limited, Virgin Clubs Limited, and Virgin Cars Limited. No provision has been made in relation to these guarantees which the directors do not expect to give rise to any liability.

Sabena (in bankruptcy), Sabena Technics, SSES (now Snecma Services Brussels or SSB, hereinafter referred to as "SSB"), Sabena Interservice Center (in liquidation) (hereinafter referred to as "SIC") and Virgin Express Holdings plc were involved in legal proceedings following the demise of Sabena in 2001.

When Sabena went into bankruptcy in November 2001, Virgin Express Holdings plc and Sabena were bound by 3 important wet lease / code share agreements. Virgin Express Holdings plc also has various contracts in place with Sabena Technics and SSB, at the time subsidiaries of Sabena, for maintenance and technical support.

Virgin Express in December 2001 filed a declaration of claims in the bankruptcy of Sabena for amounts due by Sabena under the wet lease / code share contracts in the bankruptcy period, as well as an indemnity for early termination of the wet lease contracts following the bankruptcy (approximately €269 million). Sabena's trustees partially contested these claims and in addition introduced against Virgin Express Holdings plc a claim for handling charges (approximately €102 million). SIC, as co-ordination centre of Sabena proper to its bankruptcy, was called to intervene in the proceedings and was sued by Virgin Express Holdings plc to be held jointly and severally liable by Virgin Express.

Sabena Technics and SSB, after the bankruptcy of Sabena, summoned Virgin Express Holdings plc to pay outstanding invoices relating to the pre-Sabena bankruptcy period. Virgin Express Holdings plc contested these claims and argued that they should be offset against the Virgin Express Holdings plc claim in the Sabena bankruptcy, in accordance with the general offset system consistently applied before the Sabena bankruptcy. According to that offset system, debts owed by Virgin Express Holdings plc to Sabena Technics and SSB were offset with the receivable Virgin Express Holdings plc had against Sabena resulting into a payment by Sabena to Virgin Express Holdings plc.

In December 2003, the Commercial Court of Brussels joined the different legal proceedings into one single proceeding. In May 2004, as part of an overall commercial agreement between the Virgin group and the Snecma group, Virgin Express Holdings plc and SSB entered into a settlement agreement. In this settlement SSB waived its claim against Virgin Express Holdings plc against payment by the latter of part of the amount claimed.

Sabena Technics in June 2004 waived its claim against Virgin Express Holdings plc, as part of a 3 year extension of the maintenance agreement with Virgin Express Holdings plc. This has resulted in a decrease of €3.5 million in Virgin Express' operating expenses in 2004.

In July 2004, Virgin Express Holdings plc and the trustees in bankruptcy revised and offset their reciprocal claims and Virgin Express Holdings plc then waived the remaining balance, so that parties have nothing left to claim from each other, without any further formality. Finally, Virgin Express Holdings plc sent a draft settlement agreement to SIC whereby Virgin Express Holdings plc unilaterally waives its claim against SIC. Although the settlement agreement has not yet been signed by SIC, no difficulties are expected as SIC has made no counterclaim against Virgin Express Holdings plc and would only benefit from the settlement.

Notes (continued)

22 Commitments

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

	31 March 2005	31 March 2005	31 March 2004	31 March 2004
	Land and buildings £000	Other £000	Land and Buildings £000	Other £000
Group				
Operating leases which expire:				
Within one year	215	4	149	30
In the second to fifth years inclusive	1,700	50	2,200	147
Over five years	1,683	-	1,688	-
	<u>3,598</u>	<u>54</u>	<u>4,037</u>	<u>177</u>

23 Pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the group to the fund and amounted to £397,000 (2004: £432,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

24 Reconciliation of operating loss to operating cash flows

	Year ended 31 March 2005 £000	14 month period ended 31 March 2004 £000
Group operating loss	(257,436)	(176,532)
Depreciation, amortisation and impairment charges	8,661	29,888
Provision against bad debts	225,660	121,333
Decrease in stocks	1,825	1,771
Increase in debtors	(314,183)	2,440
(Decrease)/increase in creditors	229,199	(33,143)
(Decrease)/increase in provisions	(2,785)	-
Net cash inflow from operating activities	<u>(109,059)</u>	<u>(54,243)</u>

Notes (continued)

25 Analysis of cash flows

	Year ended 31 March 2005 £000	14 month period ended 31 March 2004 £000
Returns on investment and servicing of finance		
Interest received	883	14,972
Interest paid	(15,595)	(3,811)
	<u>(14,712)</u>	<u>11,161</u>
 Capital expenditure and financial investment		
Purchase of fixed assets	(4,180)	(1,409)
Sale of fixed assets	-	320
Funding provided to related undertakings	(216,869)	(271,185)
Repayments of amounts funded to related undertakings	398,050	185,201
Funding received from related undertakings	290,834	-
Repayments of amounts from related undertakings	(542,585)	-
Sale of current asset investments	-	818
	<u>(74,750)</u>	<u>(86,255)</u>
 Acquisitions and disposals		
Investment in associates	98	-
Cash acquired with subsidiaries	9,229	-
Purchase of investment in subsidiary	(4,109)	(449)
Income from Minority Interests for purchase of shares	498	-
	<u>5,716</u>	<u>(449)</u>
 Financing		
Repaid bank loan	(535)	(161)
Other borrowings	207,704	131,597
Repaid other borrowings	(47,739)	(955)
	<u>159,430</u>	<u>130,481</u>

26 Analysis of net debt

	1 April 2004 £000	Cash flow £000	Reclassification £000	Non-cash £000	31 March 2005 £000
Cash in hand, at bank	10,894	10,906	-	-	21,800
Overdrafts	(5,325)	(44,281)	-	-	(49,606)
	<u>5,569</u>	<u>(33,375)</u>	<u>-</u>	<u>-</u>	<u>(27,806)</u>
Bank loans	(8,077)	535	(421)	-	(7,963)
Other borrowings	(426,537)	(159,965)	(179,263)	(143,092)	(908,857)
	<u>(429,045)</u>	<u>(192,805)</u>	<u>(179,684)</u>	<u>(143,092)</u>	<u>(944,626)</u>

Notes (continued)

27 Related party disclosures

At 31 March 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 Richard Branson and/or his immediate family. The shareholders of Virgin Group Investments Limited have interests directly or indirectly in certain other companies, which give rise to related party disclosures under Financial Reporting Standard No.8.

	Joint ventures undertakings		Related undertakings		Other Related undertakings	
	31 March 2005 £000	31 March 2004 £000	31 March 2005 £000	31 March 2004 £000	31 March 2005 £000	31 March 2004 £000
Creditors	-	-	867,760	612,170	676	48,448
Debtors	28,374	26,156	326,264	226,750	-	-
Interest payable	-	-	61,441	24,406	1,086	3,031
Interest receivable	-	-	73,919	47,484	-	-
Turnover	-	4	16,867	26,702	-	-
Other operating income	-	89	472	1,067	-	-
Administration expenses	-	-	1,606	2,028	-	-

Intercompany funding balances due to and from parent fellow subsidiary and associated undertakings attract a variety of interest rates.

The other related party with whom the group transacted was Sir Richard Branson and the Trusts referred to above.

The related party undertakings with whom the group transacted during the period were Bluebottle Investment Inc, Bluebottle UK Limited, Bluebottle USA Holdings Inc, Bluebottle USA Investments LP, Dragonfly SA, Virgin Holdings Limited, Newstart Investments Limited, Package Holidays Direct Limited, V2 Music Limited, Victory Corporation Plc, Virgin Atlantic Limited, Virgin Audio Holdings LLC, Virgin Blue Holdings, Virgin Books Limited, Virgin Cars Limited, Virgin Cars (Holdings) Limited, Virgin.com Limited, Virgin Group Finance LP, Virgin Group Investments Limited, Virgin Holdings SA, Virgin Home Limited, Virgin Investments SA, Virgin Leisure Limited, Virgin Media Group Limited, Virgin Mobile (Australia) Pty Limited, Virgin Mobile Telecoms Limited, Virgin Mobile USA Inc, Virgin Mobile USA LLC, Virgin Net Limited, Virgin Radio Asia Holdings UK Limited, Virgin D3 Limited, Virgin Travelstore Limited, Virgin Ventures Limited, Virgin Wine Online Limited, Virgin Audio Limited, Bluebottle Investments SA, Virgin Money Holdings (UK) Limited, Virgin Fitness SA, Virgin Hotels Group, Ivanco (No.3) Limited, Virgin Performance Limited, Virgin Pulse Holdings LLC, Virgin Sky Investments Limited, Trainline Holdings Limited, MS Vehicle Management Limited and Virgin Entertainment Global Limited

Notes (continued)

28 Acquisition of subsidiary undertakings

On 14 January 2005, the Group acquired Virgin Books Limited for a consideration of £2.

	Book and fair value £000
Net assets acquired	
Tangible Fixed assets	33
Current assets	3,853
Creditors due within 1 year	(7,157)
	<hr/>
Total tangible net assets	(3,271)
Goodwill	3,271
	<hr/>
Consideration	-
	<hr/>

29 Acquisition of subsidiary undertakings

On 18 October 2004, the Group acquired a further 28% of the ordinary share capital of MS Vehicle Management Limited for a cash consideration of £1 increasing the group's ownership to 53%. The fair value of the net liabilities acquired are shown below:

	Book and Fair value £000
Net assets acquired	
Tangible Fixed assets	2,082
Investments	79
Current assets	13,719
Overdraft	(2,395)
Creditors due within 1 year	(16,298)
Creditors due after more than 1 year	(343)
	<hr/>
Total net assets	(3,156)
Net liabilities acquired (28%)	(884)
Goodwill	884
	<hr/>
Consideration	-
	<hr/>

Subsequently a total of £2.5 million of goodwill was transferred when MS Vehicle Management Limited became a subsidiary. The capital injection of £3.0 million created an additional £1.1 million of goodwill.

Notes (continued)

30 Acquisition of subsidiary undertakings

On 20 January 2005, the Group acquired an investment in Virgin Sky Investments Limited for a consideration of £334,254,000.

	Book value £000	Fair value adjustment £000	Fair value £000
Net assets acquired			
Tangible Fixed assets	1,061	-	1,061
Investments	325,497	(210,895)	114,602
Stock	191	-	191
Debtors	243,382	-	243,382
Cash	36,280	-	36,280
Creditors due within 1 year	(143,874)	-	(143,874)
Creditors due after more than 1 year	(40,273)	-	(40,273)
Provisions	(3,693)	-	(3,693)
Minority interest	(640)	-	(640)
	<hr/>	<hr/>	<hr/>
Total tangible net assets	417,931	(210,895)	207,036
Add back Virgin Enterprises Limited*			178,173
			<hr/>
			385,209
Negative goodwill			(50,955)
			<hr/>
Consideration			334,254
			<hr/>
Satisfied by:			
Debt left outstanding on intercompany loan			334,254
			<hr/>

The fair value adjustment relates to the internally generated goodwill in Virgin Sky Investments Limited books relating to the acquisition of VHSA Holdings Limited.

* When Virgin Enterprises Limited was acquired by VEL Holdings Limited during the group reorganisation there was an amount of goodwill (£178,173,000) which was created that formed part of the fair value adjustment above. This additional value is included in the consideration of £334,254,000 but as Virgin Voyager Limited has always owned Virgin Enterprises Limited this needed to be added back to give the correct goodwill calculation from the Group's viewpoint. This therefore creates negative goodwill on the acquisition of Virgin Sky Investments by Virgin Voyager Limited.

The result of the Virgin Sky Investments Limited group up to its date of acquisition on 20 January 2005 was a loss of £3,457,000 (year ended 31 March 2004: profit of £85,782,000). The usual set offs and other adjustments required in the preparation of group accounts have been made for the purpose of disclosing this information.

Notes (continued)

31 Acquisition of subsidiary undertakings

On 17 December 2004 the Group acquired Winning Wellness PTY from another group company.

	Book & Fair value £000
Net assets acquired	
Tangible Fixed assets	463
Current assets	1,127
Creditors due within 1 year	(471)
Provisions	(67)
	<hr/>
Total tangible net assets	1,052
	<hr/>
Share of net assets acquired (51.86%)	546
Goodwill	1,755
	<hr/>
Consideration	2,301
	<hr/>
Satisfied by:	
Issue of new share capital at a premium	2,301
	<hr/>

On 21 January 2004 the Group acquired WW Science Technology from another group company.

	Book & Fair value £000
Net assets acquired	
Intangible Fixed assets	458
Creditors due within 1 year	(337)
Creditors due after more than 1 year	(11)
	<hr/>
Total tangible net assets	110
	<hr/>
Goodwill	(109)
	<hr/>
Consideration (£287)	-
	<hr/>
Satisfied by:	
Issue of new share capital at par	-
	<hr/>

Notes *(continued)*

32 Post balance sheet events

On 12 April 2005, VEX PLC satisfied the final conditions precedent to the common ownership agreement signed on 5 October 2004 and VEX Belgium was transferred to SN Air in consideration for an issue of shares, representing 29.9% of the issued capital in SN Air.

With effect from 12 April 2005, Vexair acquired from VEX PLC its entire interest in the equity in SN Air for a consideration of €54 million ("the Vexair Sale and Purchase Agreement"). The Vexair Sale and Purchase Agreement was completed following an Extraordinary General Meeting of VEX PLC held on 9 May 2005, when VEX PLC was placed into a members' voluntary liquidation. Consequently, the debt outstanding by VEX PLC to the Company was repaid in full. As part of this agreement, Vexair also assume the liabilities of VEX PLC in connection with the interest in SN Air, including warranty and indemnity liability pursuant to the common ownership agreement entered into with SN Air on 5 October 2004. The Company subscribed for 998 new £1 ordinary shares in Vexair at an aggregate subscription price of €54 million.

Following the payment of €1 gross per share to its minority shareholders, VEX PLC was delisted from Euronext on 7 June 2005 and from NASDAQ on 21 June 2005.

On 15 September 2005, the Company disposed of its investment in Virgin Books Limited for a total consideration of £22,003.

33 Ultimate parent undertaking

As at 31 March 2005, the ultimate parent company was Virgin Group Investments Limited, a company registered in the British Virgin Islands.