

Barfair Limited and subsidiary companies

**Directors' report and consolidated
financial statements**

Registered number 3552508

31 March 2006



Contents

Directors' report	1
Statement of directors' responsibilities	5
Report of the independent auditor, KPMG LLP, to the members of Barfair Limited	6
Consolidated profit and loss account	7
Consolidated balance sheet	8
Company balance sheet	9
Consolidated cash flow statement	10
Reconciliation of net cash flow to movement in net debt	10
Consolidated statement of total recognised gains and losses	11
Reconciliations of movements in shareholders' deficit	11
Notes	12

Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2006

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 the operation of airships and balloons and radio stations, wholesaler and retailer of books and DVD's, television production and office printing services.

Business Review

Management Services

The Group's subsidiary Virgin Management Limited continues to provide management services to its subsidiaries and other affiliated companies, and as such, its performance is a function of the activities of these companies.

Media

The focus of the Group's subsidiary Sound and Media Limited had been the continued expansion of the Bookends chain plus future releases from the Network label. However, the Bookends chain has since been sold to a third party on 5 May 2006. Please see the Windguard Limited accounts for a detailed review of the Bookends business, available from Companies House.

The Network catalogue of titles has expanded during the year as products based on the Granada catalogue have come on stream. Two licensing agreements have also been entered into during the year, which represents a new market for the group. The only other major change in the business during the year was a change to a larger distributor to ensure that the increased volume of sales was handled correctly.

Drinks

The Group's sub group Virgin Drinks Group Limited continues to provide services in respect of soft drinks franchises and licensing agreements. Since the balance sheet date restructuring of the group has begun in order to help lower costs in future years.

Licensing

The Group's subsidiary Virgin Enterprises Limited derived its revenue from the license of the Virgin brand name. The Company entered into material new licence arrangements during the year with the following companies: Virgin Mobile Australia Pty and Virgin Mobile Canada GP. However, the company was disposed as part of the Cricket SA disposal in December 2005.

Publishing

The Group's subsidiary Virgin Books Limited pursued the publishing strategy embarked upon during the previous year. The emphasis of this strategy was to concentrate VBL's resources and working capital on bringing to market high-profile publications by acquiring and producing a lower number of titles with higher earnings potential than in previous years.

The general publishing market was extremely challenging in 2006. The combination of a difficult trading environment and the poor performance of a number of titles, resulted in an operating loss for the year. However, the business' health and wellbeing franchise performed strongly during the year and the company is now regarded as one of the leading UK publishers in this area. The group disposed of Virgin Books Limited in November 2005.

Directors' report *(continued)*

Motor Vehicles

The Group's subsidiary Motor Solutions Vehicle Management Limited was operating in the depressed retail motor market which contributed significantly to the continuing level of trading losses. The Company improved its gross profit compared to the previous year but annual turnover is down due to branch closure. The Group disposed of MS Vehicle Management Limited at the end of March 2006.

Health Care

The Group's sub-group Virgin Lifecare Investments Limited develops and sells health and reward programs for use predominantly in the insurance, health care and leisure industries, primarily in South Africa and the United States of America. The Group continues to derive its revenue from the lease of the Group's Health Zones and the health, fitness and rewards program, Health Miles.

Results for the year

The results for the year are set out on page 7. The profit for the year has been transferred to reserves.

Acquisitions and disposals

On the 9 May 2005 the Group completed the sale of its 100% shareholding in Virgin Express SA for a consideration of £6.8m.

On 31 August 2005, the Group acquired the remaining 40% of Out FM for a total consideration of €4.8m.

On 20 September 2005, the Company disposed of its investment in Virgin Active Investments Holdings Limited (formerly known as Showhall Limited) for a total consideration of £2.

On 11 November 2005, the Company disposed of its investment in Virgin Books Limited for a total consideration of £3.

On 21 November 2005, equity shares in Virgin America Inc were issued to various partners, thus diluting Virgin Group Investments Limited investment in Virgin America Inc. No consideration was received by the Group. The Group has retained a trade investment in the business.

On 1 December 2005, the Group acquired the remaining 48.14% of Virgin Life Care (Pty) Limited to become the 100% shareholder for a total consideration of £2,951,926.

On 12 December 2005, the Group disposed of Cricket SA and its subsidiaries for a consideration of £470,017,702 which was left outstanding as intercompany loans.

On 31 March 2006, the Company disposed of its investment in Motor Solutions Vehicle Management Limited for a total consideration of £9.

Directors' report *(continued)*

Post balance sheet events

On 5 May 2006 the Sound and Media Limited Group sold part of its business and assets related to retail sales of books to a third party. No adjustments have been put through the accounts in respect of this sale with the exception of an impairment to stock of £37,624 in respect of obsolete and slow-moving items identified during the stock take undertaken as part of the third party's due diligence processes which existed in the stock at the balance sheet date. The Group is in the process of assigning all retail premises leases to the third party and will retain certain leases which were not included in the sale agreement.

On 2 May 2006 due to the increased activity in the Asia Pacific region, it was agreed that Virgin Management Limited should subscribe for further 750,000 shares in Virgin Management Asia Pacific Pty Limited at a price of A\$1 per share.

On 31 July 2006, Virgin Sky Investments Limited increased its investment in Millevere Holding Limited by US\$200,000. The Company subscribed for an additional 5 ordinary shares at a price of US\$40,000 per share, representing the nominal value of US\$1 and a premium of US\$39,999 per share.

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.

Working capital and cash flow

The Company is party to a group overdraft facility of £130 million (2005 £85 million), all of which is repayable on demand. Cash is managed centrally across a number of group companies and therefore cash balances held by the company will fluctuate according to its immediate requirements.

Forward Strategy

The Company will continue to focus on providing management services to its subsidiaries and other affiliated companies in line with the Virgin Group's continued expansion.

Environmental and ethical policies

The Company is fully committed to the Virgin Aware initiative to promote environmentally and ethically responsible business practices and managing the business in line with sound corporate government standards.

Proposed dividend

The directors do not recommend the payment of a dividend (2005 £Nil).

Political and charitable contributions

The group made no political contributions during the year. Donations to UK charities amounted to £1,304,000 (2005 £607,000).

Directors' report *(continued)*

Directors and directors' interests

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

GD McCallum	
STM Murphy	(resigned 2 September 2005)
WE Whitehorn	(resigned 1 October 2007)
PCK McCall	(appointed 2 September 2005)
J Bayliss	(appointed 1 October 2007)

None of the directors who held office at the end of the financial year 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 year

Disclosure of information to auditors

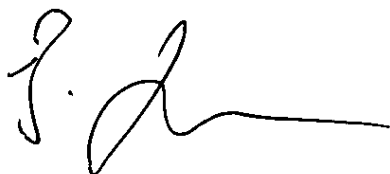
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make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

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



B AR Gerrard
Company Secretary

120 Campden Hill Road
London
W8 7AR
2007

8 November

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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 the directors have elected to prepare the Group and the Parent company financial statements in accordance with UK Accounting Standards.

The Group and Parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

In preparing these 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 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 Group and the Parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Report of the independent auditors, KPMG LLP, to the members of Barfair Limited

We have audited the group and parent company financial statements (the "financial statements") of Barfair Limited for the year ended 31 March 2006 which comprise the primary statements such as the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Reconciliations of Movements in Shareholders' Deficit and related notes. These financial statements have been prepared under the accounting policies set out therein.

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

As described in the Statement of Directors' Responsibilities on page 5, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2006 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

8 Salisbury Square
London EC4Y 8BB
8 November 2007

Consolidated profit and loss account
for the year ended 31 March 2006

	Note	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
Turnover			
Continuing operations	2	43,922	35,607
Discontinued operations	2	110,110	84,878
		<hr/>	<hr/>
		154,032	120,485
Less share of joint venture turnover		-	(23,537)
		<hr/>	<hr/>
Cost of sales	2,4	154,032 (103,945)	96,948 (63,815)
		<hr/>	<hr/>
Gross profit		50,087	33,133
Distribution costs		(688)	(865)
Administrative expenses (<i>exceptional income of £103,831,000, 2005 exceptional costs of £232,137,000</i>)	3	14,939	(291,204)
Other operating income		3,400	1,500
		<hr/>	<hr/>
Group operating profit / (loss)			
Continuing operations	2	69,258	(262,419)
Discontinued operations	2	(1,520)	4 983
		<hr/>	<hr/>
Share of operating profit of associate	2,4	67,738	(257,436)
Share of operating loss of joint venture		6,779	1,165
		-	(482)
		<hr/>	<hr/>
Total operating profit / (loss)		74,517	(256,753)
Gain/(loss) on disposal of investments – continued operations	28	(2,322)	(9,492)
Gain/(loss) on disposal of investments – discontinued operations	28	108,315	-
Loss on disposal of fixed assets – continuing operations		(36)	-
		<hr/>	<hr/>
Profit / (loss) before interest and taxation		180,474	(266,245)
Dividends receivable		530	-
Other interest receivable and similar income	7	130,717	80,732
Interest payable and similar charges	8	(78,428)	(68,335)
		<hr/>	<hr/>
Profit / (loss) on ordinary activities before taxation	3	233,293	(253,848)
Tax on profit / (loss) on ordinary activities	9	(17,324)	2,585
		<hr/>	<hr/>
Profit / (loss) on ordinary activities after taxation		215,969	(251,263)
Minority interest	20	1,944	808
		<hr/>	<hr/>
Profit / (loss) for the financial year		217,913	(250,455)
		<hr/>	<hr/>

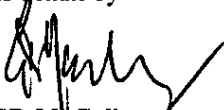
The notes on pages 12 to 40 form part of these financial statements

Consolidated balance sheet
at 31 March 2006

	Note	2006 £000	2005 £000
Fixed assets			
Intangible assets	10	9,937	9,114
Negative goodwill	10	(205)	(50,735)
Tangible assets	11	20,223	18,913
Investments	12	18,445	128,153
		<hr/>	<hr/>
			48,400
Current assets			105,445
Stocks	13	2,395	13,857
Debtors	14	1,132,660	434,602
Cash at bank and in hand		28,783	21,800
		<hr/>	<hr/>
		1,163,838	470,259
Creditors: amounts falling due within one year	15	(1,458,790)	(1,047,879)
		<hr/>	<hr/>
Net current liabilities		(294,952)	(577,620)
		<hr/>	<hr/>
Total assets less current liabilities		(246,552)	(472,175)
Creditors: amounts falling due after more than one year	16	(8,782)	(17,850)
Provisions for liabilities and charges	17	(5,281)	(5,991)
		<hr/>	<hr/>
Net liabilities		(260,615)	(496,016)
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	18	2	2
Share premium	19	276,487	276,487
Other reserves	19	54,313	54,313
Profit and loss account	19	(592,180)	(831,099)
		<hr/>	<hr/>
Equity shareholders' deficit		(261,378)	(500,297)
Minority interests	20	763	4,281
		<hr/>	<hr/>
		(260,615)	(496,016)
		<hr/>	<hr/>

The notes on pages 12 to 40 form part of these financial statements

These financial statements were approved by the board of directors on 8 November 2007 and were signed on its behalf by

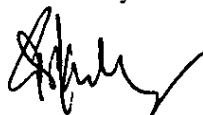

GD McCallum
Director

Company balance sheet
at 31 March 2006

	Note	2006 £000	2005 £000
Fixed assets			
Investments	12	110,984	113,036
Current assets			
Debtors	14	615,929	287,426
Cash at bank and in hand		17,391	3,751
		<u>633,320</u>	<u>291,177</u>
Creditors amounts falling due within one year	15	<u>(1,200,876)</u>	<u>(845,626)</u>
Net current liabilities		<u>(567,556)</u>	<u>(554,449)</u>
Net liabilities		<u>(456,572)</u>	<u>(441,413)</u>
Capital and reserves			
Called up share capital	18	2	2
Share premium	19	276,487	276,487
Profit and loss account	19	<u>(733,061)</u>	<u>(717,902)</u>
Equity shareholders' deficit		<u>(456,572)</u>	<u>(441,413)</u>

The notes on pages 12 to 40 form part of these financial statements

These financial statements were approved by the board of directors on 8 November 2007 and were signed on its behalf by



GD McCallum
Director

Consolidated cash flow statement
for the year ended 31 March 2006

	<i>Notes</i>	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
Cash flow from operating activities	24	(155,022)	(109,059)
Returns on investments and servicing of finance	25	(673)	(14,712)
Capital expenditure and financial investment	25	(263,281)	177,001
		<hr/>	<hr/>
Acquisitions and disposals	25	(418,976) (78,462)	53,230 5,716
		<hr/>	<hr/>
Cash outflow before financing		(497,438)	58,946
Financing	25	548,527	(92,321)
		<hr/>	<hr/>
Increase/(decrease) in cash in the year		51,089	(33,375)
		<hr/>	<hr/>

Reconciliation of net cash flow to movement in net debt
for the year ended 31 March 2006

	<i>Notes</i>	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
Increase/(decrease) in cash in the year		51,089	(33,375)
Cash outflow from increase in debt and lease financing		(548,527)	(159,430)
		<hr/>	<hr/>
Change in net debt resulting from cash flows		(497,438)	(192,805)
Other non cash items			
Disposal of subsidiary		55,733	-
Reclassification of group balances		-	(179,684)
Accrued interest		(73,699)	(143,111)
Foreign exchange		4,075	19
		<hr/>	<hr/>
Movement in net debt in the year		(511,329)	(515,581)
Net debt at the start of the year		(944,626)	(429,045)
		<hr/>	<hr/>
Net debt at the end of the year	26	(1,455,955)	(944,626)
		<hr/>	<hr/>

The notes on pages 12 to 40 form part of these financial statements

Consolidated statement of total recognised gains and losses
for the year ended 31 March 2006

	<i>Note</i>	Year ended 31 March 2006 £000 Group	Year ended 31 March 2005 £000 Group
Profit / (loss) for the financial year			
Group		210,963	(252,401)
Associate profit		6,950	1,946
		<hr/>	<hr/>
Unrealised gain on disposal of investment	28	217,913 19,812	(250,455) -
Currency translation differences on net foreign currency investments	19	1,103	497
		<hr/>	<hr/>
Total recognised gains and losses relating to the year		238,828	(249,958)
		<hr/>	<hr/>

Reconciliations of movements in shareholders' deficit
for the year ended 31 March 2006

	Year ended 31 March 2006 £000 Group	Year ended 31 March 2006 £000 Company	Year ended 31 March 2005 £000 Group	Year ended 31 March 2005 £000 Company
Total recognised gains and losses relating to the year	238,828	(15,159)	(249,958)	(213,609)
Issue of shares	-	-	101,217	101,217
Other	91	-	2,716	-
	<hr/>	<hr/>	<hr/>	<hr/>
Increase in shareholders' deficit	238,919	(15,159)	(146,025)	(112,392)
Opening shareholders' deficit	(500,297)	(441,413)	(354,272)	(329,021)
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' deficit	(261,378)	(456,572)	(500,297)	(441,413)
	<hr/>	<hr/>	<hr/>	<hr/>

The notes on pages 12 to 40 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 for the year under review

During the year the Group implemented the following Financial Reporting Standards

- Financial Reporting Standard 21, "Events After The Balance Sheet Date" has been complied with in the preparation of these financial statements. Therefore, final dividends are now only recognised in the profit and loss reserves when shareholders have approved such amounts and interim dividends are only recognised when paid. The adoption of this Financial Reporting Standard has not led to any changes in presentation of the Group result
- Financial Reporting Standard 25, "Financial Instruments: Disclosure and Presentation" has been adopted in the preparation of these accounts. The adoption of this Financial Reporting Standard has not led to any changes in presentation of the Group result
- Financial Reporting Standard 28, "Corresponding Amounts", which has had no material affect as it imposes the same requirements for comparatives as hitherto required by the Companies Act of 1985

The accounting policies under these new standards are set out below. Their adoption has had no material effect.

Basis of preparation

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

The holding company has taken advantage of section 230(4) of the Companies Act 1985, and a separate profit and loss account of the Company has not been published. The profit and loss attributable to the Company is disclosed in note 19.

The financial statements have been prepared on a going concern basis in view of the fact that the parent undertaking Virgin Group Investments Limited has formally indicated that it is its present intention to 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 2006. 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 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.

The consolidated financial statements have been compiled using the financial statements of Barfair Limited's subsidiaries, joint ventures and associates for accounting periods which are coterminous with Barfair Limited's own accounting reference date.

Notes (continued)

1 Accounting policies (continued)

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.

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

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.

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	-	2 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 measured 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.

Notes (continued)

1 Accounting policies (continued)

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.

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.

Notes (continued)

2 Analysis of continuing, acquired and discontinued operations

	Year ended 31 March 2006			Year ended 31 March 2005		
	Discontinued £000	Continuing £000	Total £000	Discontinued £000	Continuing £000	Total £000
Turnover	110,110	43,922	154,032	84,878	35,607	120,485
Less share of joint venture turnover	-	-	-	(23,537)	-	(23,537)
	<u>110,110</u>	<u>43,922</u>	<u>154,032</u>	<u>61,341</u>	<u>35,607</u>	<u>96,948</u>
Cost of sales	(88,439)	(15,506)	(103,945)	(48,076)	(15,739)	(63,815)
Gross profit	21,671	28,416	50,087	13,265	19,868	33,133
Distribution costs	(342)	(346)	(688)	(313)	(552)	(865)
Administrative expenses	(27,181)	42,120	14,939	(8,793)	(282,411)	(291,204)
Other operating income	4,332	(932)	3,400	824	676	1,500
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Group operating profit / (loss)	(1,520)	69,258	67,738	4,983	(262,419)	(257,436)
Share of operating profit of joint venture and associates	6,779	-	6,779	683	-	683
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total profit / (loss)	5,259	69,258	74,517	5,666	(262,419)	(256,753)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Discontinued

On the 9 May 2005, the Group completed the sale of its 100% shareholding in Virgin Express SA for a consideration of £6.8 million.

On 20 September 2005, the company disposed of its investment in Virgin Active Investments Holdings Limited (formerly known as Showhall Limited) for a total consideration of £2.

On 11 November 2005, the Company disposed of its investment in Virgin Books Limited to a fellow subsidiary of Virgin Group Investments Limited for a total consideration of £3.

On 12 December 2005, the Group disposed of Cricket SA and its subsidiaries for a consideration of £470,017,702 which was left outstanding as intercompany loans.

On 31 March 2006, the Company disposed of its investment in Motor Solutions Vehicle Management Limited for a total consideration of £9.

Continued

The Group company Virgin Radio France Holdings Limited held 60% of OUI FM. On 31 August 2005, the group acquired the remaining 40% of OUI FM for a total consideration of €4.8m.

The Group company Virgin Lifecare Investments Limited held 51.86% of Virgin Life Care (Pty) Limited. On 1 December 2005, the Group acquired the remaining 48.14% of Virgin Life Care (Pty) Limited to become the 100% shareholder for a total consideration of £2,951,926.

Notes (continued)

3 Profit/(loss) on ordinary activities before taxation

	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
<i>Profit / (loss) on ordinary activities before taxation is stated</i>		
<i>after charging/(crediting)</i>		
Auditors' remuneration		
Group - audit	344	363
- fees paid to the auditors and its associates in respect of other services	28	-
Company - audit	19	24
Depreciation of tangible fixed assets	2,135	1,705
Amortisation of negative goodwill on intangible fixed assets	(1,699)	(425)
Amortisation of positive goodwill and other intangible fixed assets	709	1,024
Impairment of goodwill on intangible assets	-	4,555
Impairment of tangible fixed assets	47	-
Amortisation of goodwill on fixed assets investments	1,584	436
Hire of plant and machinery – rentals payable under operating leases	33	284
Hire of other assets – operating leases	5,384	1,117
Exchange differences	363	(952)
Rent receivable	(711)	(840)

The following exceptional items have been charged to administration expenses

	£000	£000
Impairment of goodwill and intangible fixed assets	-	4,555
Provision against amounts due from related undertakings	65,674	225,660
Impairment of tangible fixed assets	-	1,802
Impairment of investments	-	120
Provision write-backs against amounts due from related undertakings	(169,505)	-
	<u>(103,831)</u>	<u>232,137</u>

Notes (continued)

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

Turnover, operating profit/(loss) and net liabilities are analysed below

<i>By activity</i>	Turnover Year ended 31 March 2006 £000	Group operating profit Year ended 31 March 2006 £000	Turnover Year ended 31 March 2005 £000	Group operating (loss) Year ended 31 March 2005 £000
Discontinued				
Cars	73,197	(2,522)	73,235	(3,496)
Trademark licensing	8,058	4,745	11,643	8,479
Travel	28,855	(3,743)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	110,110	(1,520)	84,878	4,983
Less share of associate revenue/operating (profit)	-	6,779	(23,537)	683
	<hr/>	<hr/>	<hr/>	<hr/>
Total - discontinued	110,110	5,259	61,341	5,666
	<hr/>	<hr/>	<hr/>	<hr/>
Continuing				
Wholesale and retail	21,519	(3,773)	15,212	(838)
Property	-	-	-	(23,412)
Clubs and hotels	6,465	922	5,095	576
Merchandising and event management	-	(240)	4,564	(509)
Balloons and airships	-	(3)	-	(13)
Management services and other	15,938	72,352	10,736	(238,223)
	<hr/>	<hr/>	<hr/>	<hr/>
	43,922	69,258	35,607	(262,419)
Less share of associate revenue/operating (profit)	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total - continuing	43,922	69,258	35,607	(262,419)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	154,032	74,517	96,948	(256,753)
	<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 profit/(loss) and net liabilities (continued)

Net liabilities

	31 March 2006 £000	31 March 2005 £000
Discontinued		
Cars	-	(3,439)
Trademark licensing	-	1,848
Travel	1,602	(23,310)
Total - discontinued	1,602	(24,901)
Continued		
Wholesale and retail	(153,117)	(17,728)
Property	-	1,378
Clubs and hotels	307	5,155
Merchandising and event management	(5,952)	(3,562)
Balloons and airships	(3,104)	(2,455)
Management services and other	(100,351)	(453,903)
Total - continued	(262,217)	(471,115)
Total	(260,615)	(496,016)

By geographical market

	Turnover Year ended 31 March 2006 £000	Group operating profit Year ended 31 March 2006 £000	Turnover Year ended 31 March 2005 £000	Group operating loss Year ended 31 March 2005 £000
UK and Ireland	105,943	(75,892)	107,974	(247,769)
Rest of Europe	33,467	(3,753)	3,942	(851)
Rest of World	14,622	154,162	8,569	(8,133)
	154,032	74,517	120,485	(256,753)
Less share of associate revenue/operating (profit)	-	(6,779)	(23,537)	(683)
	154,032	67,738	96,948	(257,436)

Net liabilities

	31 March 2006 £000	31 March 2005 £000
UK and Ireland	(669,833)	(599,382)
Rest of Europe	4,272	(20,743)
Rest of World	404,946	124,109
	(260,615)	(496,016)

Notes (continued)

5 Remuneration of directors

	Year ended 31 March 2006 £000	restated Year ended 31 March 2005 £000
Directors' emoluments	2,230	1,231
Company contributions to money purchase pension schemes	111	96
	<u>2,341</u>	<u>1,327</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £947,859 (2005 £469,824) Company pension contributions of £53,338 (2005 £37,197) were made on his behalf

	Number of directors	
	Year ended 31 March 2006	Year ended 31 March 2005
Retirement benefits are accruing to the following number of directors under Money purchase schemes	3	3

6 Staff numbers and costs

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

	Number of employees	
	Year ended 31 March 2006	Year ended 31 March 2005
Management and administration	443	252
Selling and distribution	149	188
Operations and other	210	211
	<u>802</u>	<u>651</u>

The aggregate payroll costs of these persons were as follows

	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
Wages and salaries	30,725	20,292
Social security costs	3,850	1,591
Other pension costs	519	397
Other	1,045	3
	<u>36,139</u>	<u>22,283</u>

Notes (continued)

7 Other interest receivable and similar income

	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
Bank interest	1,613	2,336
Other interest	676	904
Foreign exchange gains	16,070	2,889
Interest receivable from related parties	109,946	73,919
Interest receivable from associates	2,412	684
	<u>130,717</u>	<u>80,732</u>

8 Interest payable and similar charges

	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
On bank loans and overdrafts	2,824	1,752
Other interest	116	2,743
Finance charges payable in respect of finance leases and hire purchase contracts	22	14
Foreign exchange losses	-	503
Interest payable to related parties	72,952	62,527
Interest payable to associate	2,514	796
	<u>78,428</u>	<u>68,335</u>

9 Taxation

	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
<i>UK corporation tax</i>		
Current tax on income for the year	7,530	-
Adjusted in respect of prior years	2,182	(447)
	<u>9,712</u>	<u>(447)</u>
Foreign tax	3,889	1,092
	<u>13,601</u>	<u>645</u>
Total current tax	13,601	645
Deferred tax for year	127	(3,185)
Adjusted in respect of prior year	3,225	(45)
Overseas deferred tax	352	-
Effect of increased / decreased tax rate	19	-
	<u>17,324</u>	<u>(2,585)</u>
Tax charge/(credit) on profit/(loss) on ordinary activities		

Notes (continued)

9 Taxation (continued)

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

The current tax charge/(credit) for the year is higher (2005 higher) than the standard rate of corporation tax in the UK 30% (2005 30%) The differences are explained below

	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
Current tax reconciliation		
Profit/(loss) on ordinary activities before tax	233,293	(253,848)
Current tax at 30% (2005 30%)	69,988	(76,154)
Effects of		
Capital allowances for period in excess of depreciation	(133)	65
Other short term timing differences	143	5,678
Unrelieved overseas tax losses	3,341	841
Unrelieved UK tax losses	1,415	659
Income not subject to tax	(123,930)	(21,344)
Utilisation of UK tax losses bought forward	(127)	(2,044)
Utilisation of overseas tax losses bought forward	(405)	-
Adjustment in respect of prior years	2,259	(25)
Expenses not deductible for tax purposes	58,637	92,897
High/low tax rates on overseas earnings	250	68
Foreign tax suffered	107	4
Foreign exchange	18	-
CFC tax	2,038	-
	<u>13,601</u>	<u>645</u>

Factors that may affect future tax losses

As at 31 March 2006, the group had tax losses and other timing differences available to carry forward of approximately £186million (2005 £184million) 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 deferred tax assets recognised and unrecognised are set out below

	31 March 2006 Recognised £000	31 March 2006 Unrecognised £000	31 March 2005 Recognised £000	31 March 2005 Unrecognised £000
Accelerated capital allowances	848	(1,263)	721	(1,369)
Short term timing differences	(3,895)	(198)	(7,245)	(6,708)
UK tax losses	(106)	(37,507)	(103)	(35,128)
Overseas tax losses	(110)	(16,731)	(483)	(11,903)
	<u>(3,263)</u>	<u>(55,699)</u>	<u>(7,110)</u>	<u>(55,108)</u>

Notes (continued)

10 Intangible fixed assets

Group	Negative Goodwill £000	Goodwill £000	Other Intangible assets £000	Total positive goodwill and other intangible assets £000
<i>Cost</i>				
At 1 April 2005	(51,657)	76,121	805	76,926
Additions (see note 28)	-	4,306	15	4,321
Disposals (see note 28)	50,955	(7,826)	(76)	(7,902)
Exchange differences	-	-	(1)	(1)
At 31 March 2006	(702)	72,601	743	73,344
<i>Amortisation and impairments</i>				
At 1 April 2005	(922)	67,309	503	67,812
(Credited)/charged in year	(1,699)	661	48	709
Disposals	2,124	(5,100)	(15)	(5,115)
Exchange differences	-	-	1	1
At 31 March 2006	(497)	62,870	537	63,407
<i>Net book value</i>				
At 31 March 2006	(205)	9,731	206	9,937
At 31 March 2005	(50,735)	8,812	302	9,114

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises

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
<i>Cost or valuation</i>						
At 1 April 2005	17,583	7,132	5,146	259	370	30,490
Additions	532	3,019	537	-	161	4,249
Disposals	(28)	(234)	(908)	-	(107)	(1,277)
Reclassifications	-	(12)	-	-	-	(12)
Disposed with subsidiary	(1,205)	(1,833)	(225)	(259)	-	(3,522)
Exchange differences	1,026	314	133	-	34	1,507
At 31 March 2006	17,908	8,386	4,683	-	458	31,435
<i>Depreciation</i>						
At 1 April 2005	3,055	4,032	4,212	-	278	11,577
Charge for year	521	936	556	-	122	2,135
Impairment	-	5	42	-	-	47
Disposals	(2)	(91)	(820)	-	(107)	(1,020)
Disposed with subsidiary	(1,182)	(160)	(673)	-	-	(2,015)
Exchange differences	143	222	99	-	24	488
At 31 March 2006	2,535	4,944	3,416	-	317	11,212
<i>Net book value</i>						
At 31 March 2006	15,373	3,442	1,267	-	141	20,223
At 31 March 2005	14,528	3,100	934	259	92	18,913

Included in the total net book value of Motor Vehicles is £nil (2005 £155,000) in respect of assets held under finance leases (and similar hire purchase contracts) Depreciation for the year on these assets is £0 (2005 £83,000)

Included in the total net book value of Fixtures & Fittings is £17,000 in respect of assets held under finance leases (and similar hire purchase contracts) Depreciation for the year on the assets was £9,000

During the year the group entered into finance lease and hire purchase agreements in respect of assets with a total capital value at the inception of the leases of £142,000

Included in the net book value of Plant & Equipment is £134,000 in respect of assets held under finance lease (and similar hire purchase agreements) Depreciation for the year on the assets was £7,000

Notes (continued)

11 Tangible fixed assets (continued)

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

	31 March 2006 £000	31 March 2005 £000
Net book value		
Freehold land and building	10,770	9,812
Leasehold land and buildings	4,603	4,716
	<u>15,373</u>	<u>14,528</u>
Depreciation charged in the year		
Freehold land and building	418	342
Leasehold land and buildings	103	132
	<u>521</u>	<u>474</u>

Notes (continued)

12 Fixed asset investments

Group	Interests in associated undertakings £000	Listed investments £000	Unlisted investments £000	Total investments £000
Cost				
At 1 April 2005	119,037	-	8,614	127,651
Reclassifications	(4,025)	4,025	-	-
Additions	-	-	6,850	6,850
Disposals	(115,012)	-	(80)	(115,092)
At 31 March 2006	-	4,025	15,384	19,409
Share of post acquisition reserves				
Balance at 1 April 2005	1,946	-	-	1,946
Share of profit for the year	8,363	-	-	8,534
Share of interest payable	(2,515)	-	-	(2,515)
Share of interest receivable	2,412	-	-	2,412
Share of tax	(3,319)	-	-	(3,319)
Amortisation of goodwill	(1,584)	-	-	(1,584)
Share of dividend paid	(27,862)	-	-	(27,862)
Exchange differences	3,438	-	-	3,267
Disposals	19,121	-	-	19,121
At 31 March 2006	-	-	-	-
Impairments				
Balance at 1 April 2005	(480)	-	(964)	(1,444)
Disposals	480	-	-	480
At 31 March 2006	-	-	(964)	(964)
Net book value				
At 31 March 2006	-	4,025	14,420	18,445
At 31 March 2005	120,503	-	7,650	128,153

On 12 December 2005, the Group disposed of its investment in Cricket SA, including its associate undertaking, for a consideration of £470,018,000 (see note 28), which was left outstanding as an intercompany loan. As a result of this transaction Barfair retained its holding in Virgin Blue which is below 1% and reclassified its interest in associated undertakings to listed investments.

On 9 May 2005, the Group acquired an investment in SN Airholding for a total consideration of £6.8m which was left outstanding as an intercompany loan.

On 31 March 2006 the Group disposed of its interest in CMG Communications.

Notes (continued)

12 Fixed asset investments (continued)

Company	Shares in group undertaking £000
<i>Cost</i>	
At 1 April 2005	122,713
Additions	5,637
Disposals	(16,978)
At 31 March 2006	111,372
<i>Provisions</i>	
At 1 April 2005	(9,677)
Disposals	9,289
At 1 March 2006	(388)
<i>Net book value</i>	
At 31 March 2006	110,984
At 31 March 2005	113,036

On 11 November 2005, the Company disposed of its investment in Virgin Books Limited to a fellow subsidiary of Virgin Group Investments Limited for a total consideration of £3

During the year the Company invested in new shares and capitalised some of its loans with Motor Solutions Vehicle Management Limited into shares for a total of £5,636,201. On 31 March 2006, the Company disposed of its investment in Motor Solutions Vehicle Management Limited for a total consideration of £9

Notes (continued)

12 Fixed asset investments (continued)

The principal undertakings in which the group's interest at the year 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)	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 Limobikes 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	England & Wales	Health/life insurance provider	79.69%	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
Subsidiary undertakings				
Virgin Limousines LLC	USA	Limousine service	65%	Ordinary US\$1 shares
Oui FM SAS	France	Radio Station	100%	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%	Common stock 1cent value
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
Millevere Holdings Limited	British Virgin Islands	Investment holding company	100%	Ordinary US\$1 shares
VML 2 Limited	England & Wales	Investment holding company	100%	Ordinary US\$ 1 shares
Participating interest				
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 2006 £000	31 March 2005 £000
Group		
Raw materials and consumables	234	291
Work in progress	-	145
Finished goods and goods for resale	2,161	13,421
	<u>2,395</u>	<u>13,857</u>

Notes (continued)

14 Debtors

	Group 31 March 2006 £000	Company 31 March 2006 £000	Group 31 March 2005 £000	Company 31 March 2005 £000
Trade debtors	3,209	-	16,581	-
Amounts owed by subsidiary undertakings	-	108,546	-	40,963
Amounts owed by related undertakings (see note 27)	1,108,947	503,260	326,264	211,013
Amounts owed by undertakings in which the company has a participating interest	-	-	28,374	28,374
Other debtors	9,723	250	41,550	-
Group relief debtor	2,781	-	4,729	-
Tax and other social security	415	-	-	-
Deferred tax asset	3,263	3,873	7,110	7,076
Prepayments and accrued income	4,322	-	9,994	-
	<u>1,132,660</u>	<u>615,929</u>	<u>434,602</u>	<u>287,426</u>

15 Creditors amounts falling due within one year

	Group 31 March 2006 £000	Company 31 March 2006 £000	Group 31 March 2005 £000	Company 31 March 2005 £000
Bank loans and overdrafts	5,933	-	50,006	-
Finance lease obligations	75	-	381	-
Trade creditors	7,760	-	31,796	-
Amounts owed to subsidiary undertakings	-	262,309	-	201,450
Amounts owed to related undertakings	1,387,305	903,216	868,436	613,264
Corporation tax	12,030	35,208	10,269	30,698
Group relief creditor	4,645	-	9,721	-
Other tax and social security	1,430	-	-	-
Other creditors	32,707	-	55,839	11
Accruals and deferred income	6,905	143	21,431	203
	<u>1,458,790</u>	<u>1,200,876</u>	<u>1,047,879</u>	<u>845,626</u>

Notes (continued)

16 Creditors amounts falling due after more than one year

Group	31 March 2006 £000	31 March 2005 £000
Bank loans	7,529	7,563
Amounts owed to group undertakings	-	10,115
Other creditors	688	22
Finance lease obligations	287	138
Accruals and prepaid income	278	12
	<u>8,782</u>	<u>17,850</u>

Analysis of bank loans and overdrafts as falling due

Group	31 March 2006 £000	31 March 2005 £000
Loans can be analysed as falling due		
In one year or less, or on demand	5,933	50,006
Between one and two years	468	427
Between two and five years	1,640	1,453
In five years or more	5,421	5,683
	<u>13,462</u>	<u>57,569</u>

Analysis of finance leases as falling due

Group	31 March 2006 £000	31 March 2005 £000
Finance leases can be analysed as falling due		
In one year or less, or on demand	75	381
Between one and two years	73	99
Between two and five years	214	39
	<u>362</u>	<u>519</u>

Notes (continued)

17 Provisions for liabilities and charges

Group	Aircraft maintenance £000	Provision for closure costs £000	Other provisions £000	Total £000
At 1 April 2005	3,376	170	2,445	5,991
Acquired with subsidiary	-	-	2,058	2,058
Further provisions and writebacks	-	-	1,272	1,272
Utilised in year	-	(23)	(324)	(347)
Disposal of business	(3,376)	-	(317)	(3,693)
At 31 March 2006	-	147	5,134	5,281

18 Called up share capital

	31 March 2006 £000	31 March 2005 £000
<i>Authorised</i> 2,000 Ordinary shares of £1 each	2	2
<i>Allotted, called up and fully paid</i> 2,000 Ordinary shares of £1 each	2	2

19 Share premium and reserves

Group	Share premium £000	Merger reserve £000	Profit and loss account £000
At 1 April 2005	276,487	54,313	(831,099)
Profit for the year	-	-	217,913
Unrealised gain on disposal of investment	-	-	19,812
Other movements	-	-	91
Exchange movements	-	-	1,103
At 31 March 2006	276,487	54,313	(592,180)

Company	Share premium £000	Profit and loss account £000
At 1 April 2005	276,487	(717,902)
Loss for the year	-	(15,159)
At 31 March 2006	276,487	(733,061)

Notes (continued)

20 Minority interests

	31 March 2006 £000	31 March 2005 £000
Group		
At 1 April 2005	4,281	399
On acquisition of subsidiary	-	4,676
Share of loss for year	(1,944)	(808)
Dividends received by minorities	(177)	-
Purchase of MI	(1,928)	-
Disposal of subsidiary	475	-
Foreign exchange	56	14
At 31 March 2006	763	4,281

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

21 Contingent liabilities

The company is party to a group overdraft facility of £130 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 Brussels Airlines Fly (previously denominated Virgin Express) were involved in legal proceedings following the demise of Sabena in 2001. They were mostly related to for wet lease and code share agreements with Sabena and agreements about the maintenance and technical support by Sabena Technics. Mutual liabilities and claims were indicted whereas in December 2003 the Commercial Court in Brussels combined the various legal cases. In 2004 Brussels Airlines Fly agreed to settle the cases with Snecma and Sabena Technics. Brussels Airlines Fly NV and the curators of the bankrupt Sabena reviewed the mutual claims and agreed to compare each others liabilities against the pending claims.

A similar proposal was submitted to the SIC, on which no objections were brought forward.

Notes (continued)

22 Commitments

Annual commitments under non-cancellable operating leases are as follows

Group	31 March 2006 Land and buildings £000	31 March 2006 Other £000	31 March 2005 Land and Buildings £000	31 March 2005 Other £000
Operating leases which expire				
Within one year	102	83	215	4
In the second to fifth years inclusive	1,765	288	1,700	50
Over five years	1,339	-	1,683	-
	<u>3,206</u>	<u>371</u>	<u>3,598</u>	<u>54</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 £519,000 (2005 £397,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

24 Reconciliation of operating profit/(loss) to operating cash flows

	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
Group operating profit / (loss)	67,738	(257,436)
Depreciation, amortisation and impairment charges	1,267	8,661
Provision against bad debts	65,674	225,660
Decrease in stocks	9,574	1,825
Increase in debtors	(293,520)	(314,183)
(Decrease)/increase in creditors	(10,180)	229,199
Increase/(decrease) in provisions	4,386	(2,785)
Increase in foreign exchange	39	-
Net cash flow from operating activities	<u>(155,022)</u>	<u>(109,059)</u>

Notes (continued)

25 Analysis of cash flows

	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
Returns on investment and servicing of finance		
Interest received	2,289	883
Interest paid	(2,962)	(15,595)
	<u>(673)</u>	<u>(14,712)</u>
Capital expenditure and financial investment		
Purchase of fixed assets	(4,318)	(4,180)
Sale of fixed assets	257	-
Funding to related undertakings	(475,371)	(216,869)
Repayments from related undertakings	216,151	398,050
	<u>(263,281)</u>	<u>177,001</u>
Acquisitions and disposals		
Investment in associates	-	98
Cash acquired with subsidiaries	499	36,498
Cash disposed with subsidiaries	(68,436)	(27,269)
Purchase of investment in subsidiary	(9,335)	(4,109)
Disposal of investments	277	-
Income from minority interests	-	498
Purchase of minority interests	(1,967)	-
Disposal of minority interests	500	-
	<u>(78,462)</u>	<u>5,716</u>
Financing		
(Decrease) in bank loans	(729)	(535)
Increase in other borrowings	280,958	207,704
Funding from related undertakings	373,983	290,834
Repayments to related undertakings	(105,685)	(542,585)
Repaid other borrowings	-	(47,739)
	<u>548,527</u>	<u>(92,321)</u>

Notes (continued)

26 Analysis of net debt

	1 April 2005 £000	Cash flow £000	Non-cash £000	31 March 2006 £000
Cash at bank and in hand	21,800	6,983	-	28,783
Overdrafts	(49,606)	44,106	-	(5,500)
	(27,806)	51,089	-	23,283
Bank loans	(7,963)	729	(728)	(7,962)
Other borrowings	(908,857)	(549,256)	(13,163)	(1,471,276)
Total	(944,626)	(497,438)	(13,891)	(1,455,955)

27 Related party disclosures

At 31 March 2006 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 2006 £000	31 March 2005 £000	31 March 2006 £000	31 March 2005 £000	31 March 2006 £000	31 March 2005 £000
Creditors	-	-	1,386,591	867,760	714	676
Debtors	-	28,374	1,108,947	326,264	-	-
Interest payable	-	-	72,952	61,441	-	1,086
Interest receivable	-	-	109,946	73,919	-	-
Turnover	-	-	17,642	16,867	-	-
Other operating income	-	-	50	472	-	-
Administration expenses	-	-	2,954	1,606	-	-

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 year 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 Acquisitions and disposals of subsidiary undertakings

On 1 December 2005, the Group acquired the remaining 48.14% of Virgin Life Care (Pty) Limited

	Fair value £000
Net assets acquired	
Tangible fixed assets	255
Current assets	1,873
Creditors due within 1 year	(266)
	<hr/>
Total net assets	1,862
Net assets acquired (48.14%)	896
Goodwill	2,056
	<hr/>
Consideration	2,952
	<hr/>

On 31 August 2005, the Group acquired the remaining 40% of Our FM, the company is now 100% owned

	Book and Fair value £000
Net assets acquired	
Tangible fixed assets	173
Current assets	3,556
Creditors due within 1 year	(1,138)
Creditors due after more than 1 year	(12)
	<hr/>
Total net assets	2,579
Net assets acquired (40%)	1,032
Goodwill	2,250
	<hr/>
Consideration	3,282
	<hr/>

Notes (continued)

28 Acquisitions and disposals of subsidiary undertakings (continued)

On 12 December 2005, the Group disposed of Cricket SA and its subsidiaries. Total consideration was £470m and was left outstanding as an intercompany debt.

	Fair value £000
Consideration received	470,018
Net assets disposed	
Investments	95,411
Debtors	403,073
Cash	60,587
Creditors due within 1 year	(128,267)
Creditors due after more than 1 year	(22,682)
Provisions	91
	<hr/>
Total tangible net assets	408,213
Negative goodwill not amortised	(48,831)
	<hr/>
Net assets disposed of	359,382
	<hr/>
	<hr/>
Profit on disposal	110,636
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On 11 November 2005, the Company disposed of its investment in Virgin Books Limited to a fellow subsidiary of Virgin Group Investments Limited for a total consideration of £3.

	Fair value £000
Consideration received (£3)	-
Net liabilities disposed	
Tangible fixed assets	29
Stock	472
Debtors	1,881
Cash	(114)
Creditors	(2,389)
	<hr/>
Total tangible net liabilities	(121)
Unamortised goodwill	2,726
	<hr/>
Net assets disposed of	2,605
	<hr/>
Loss on disposal	(2,605)
	<hr/>

Notes (continued)

28 Acquisitions and disposals of subsidiary undertakings (continued)

On 31 March 2006, the Company disposed of its investment in Motor Solutions Vehicle Management Limited for a total consideration of £9

	Fair value £000
Consideration received (£9)	-
Net assets disposed	
Tangible fixed assets	390
Stock	1,416
Debtors	1,078
Cash	2,466
Creditors	(4,025)
Total tangible net liabilities	<u>1,325</u>
Equity net assets disposed (69.65%)	923
Historical minority interest	(975)
Loan written off	2,373
Net assets disposed of	<u>2,321</u>
Loss on disposal	<u>(2,321)</u>

The loss attributable to the group includes losses of £3.0million incurred by MS Vehicle Management Limited up to its date of disposal on 30 March 2006. During the period to disposal, MS Vehicle Management Limited utilised £0.8million of the group's net operating cash flows and utilised £0.3million for capital expenditure and financial investment.

On 21 November 2005, equity shares in Virgin America Inc were issued to various partners, thus diluting Barfair Limited investment in Virgin America Inc. No consideration was received by the Group. The group has retained a trade investment in the business. The disposal is analysed as follows:

	Fair value £000
Consideration received	-
Net liabilities disposed	
Tangible fixed assets	188
Debtors	54,700
Cash	1,000
Liabilities due within one year	(3,100)
Liabilities due after one year	(72,600)
Net assets disposed of	<u>(19,812)</u>
Unrealised gain on dilution of investments	<u>19,812</u>

The loss attributable to the group includes losses of £7.3million incurred by Virgin America Inc up to its date of disposal on 21 November 2005.

During the period to disposal, Virgin America Inc utilised £24.4million of the group's net operating cash flows.

Notes (continued)

28 Acquisitions and disposals of subsidiary undertakings (continued)

On the 9 May 2005, the Group completed the sale of its 100% shareholding in Virgin Express SA for a consideration of £6.8million. The disposal is analysed as follows:

	Fair value £000
Consideration received	6,800
Net assets disposed	
Intangible fixed assets	100
Tangible fixed assets	900
Debtors	30,400
Cash	5,500
Creditors	(32,700)
	<hr/>
Net assets	4,200
Minority interests in disposed entity	(500)
	<hr/>
Net assets disposed of	3,700
	<hr/>
Compensation paid to parent company's minority interests	3,100
	<hr/>
Satisfied by	
Investment in SN Airholding NV	6,800
	<hr/>

The group has not recorded any gain or loss on the above transaction. The carrying value of the shares in SN Airholdings NV reflects the group's previous interests in Virgin Express SA plus additional costs incurred.

The loss attributable to the group includes losses of £2.8million incurred by Virgin Express SA up to its date of disposal on 9 May 2005.

During the period to disposal, Virgin Express SA utilised £7.4million of the group's net operating cash flows.

As Virgin Express SA has a December year-end, these financial statements consolidate the company's results from the date of acquisition, being 20 January 2005, up until the date of disposal.

During the year Virgin Mobile Holdings PTE Limited received a final settlement of £283,000 from a Joint Venture termination in 2003. This is included within gains on disposals of investments.

29 Post balance sheet events

On 5 May 2006 the Sound and Media Limited Group sold part of its business and assets related to retail sales of books to a third party. No adjustments have been put through the accounts in respect of this sale with the exception of an impairment to stock of £37,624 in respect of obsolete and slow-moving items identified during the stock take undertaken as part of the third party's due diligence processes which existed in the stock at the balance sheet date. The Group is in the process of assigning all retail premises leases to the third party and will retain certain leases which were not included in the sale agreement.

On 2 May 2006 due to the increased activity in the Asia Pacific region, it was agreed that Virgin Management Limited should subscribe for further 750,000 shares in Virgin Management Asia Pacific Pty Limited at a price of A\$1 per share.

On 31 July 2006, Virgin Sky Investments Limited increased its investment in Millevere Holding Limited by US\$200,000. The Company subscribed for an additional 5 ordinary shares at a price of US\$40,000 per share, representing the nominal value of US\$1 and a premium of US\$39,999 per share.

Notes *(continued)*

30 Ultimate parent undertaking

As at 31 March 2006, the ultimate parent company was Virgin Group Investments Limited, a company registered in the British Virgin Islands