

Barfair Limited and subsidiary companies

**Directors' report and consolidated
financial statements**

Registered number 3552508

31 March 2007

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Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2007

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, wholesaler of DVDs and sale of health and wellness reward programs. Other less significant activities of the subsidiaries and associated companies include the operation of radio stations and hotel operation.

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. Turnover in the financial year has seen an 11% increase on the prior year to £6.3m, predominantly as a result of increased Group activity. This has also led to an increase in staff numbers from 97 to 100 in the year, and further increases are anticipated for the 2008 financial year as additional opportunities for the Group are pursued.

Media

The focus of the Group's subsidiary Sound and Media Limited (renamed Network Distributing Limited on 13 August 2008) had been the continued releases of titles from the Network label. The Bookends chain was sold to a third party on 5 May 2006.

The Network catalogue of titles has continued to expand during the year as products based on the Granada catalogue have come on stream. Additional licensing agreements have also been entered into during the year in the Netherlands and Germany. A new label called Network Two was launched during the year as a second channel for Network titles.

The subsidiary was subject to severe downwards price deflation in line with the DVD market as a whole, this has adversely affected not only the turnover but also the gross margin achieved. In March 2007 the company also changed its distributors to enable better stock control.

Drinks

The Group's sub-group, The 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.

Hotel Operation

The Group's subsidiary Necker Island BVI Limited has continued to undertake capital investment on the island during the year to enhance and improve the product. This in conjunction with the opening of a New York regional sales office in July 2007 and a strong marketing strategy is hoped to increase bookings in the coming years.

Health Care

The Group's sub-group Virgin Life Care Investments Limited develops and sells health and wellness reward programs for use predominantly in the insurance, education, health care, governmental and leisure industries, primarily in South Africa and the United States of America. The Group derives its revenue from program sponsorship and membership fees for the participation in the HealthMiles programs and from the lease of the Group's Health Zones.

Directors' report *(continued)*

Principal risks and uncertainties

The Board of Directors are responsible for setting financial risk management policies and objectives, and approves the parameters within which the various aspects of financial risk management are operated

Interest rate risk

The Company is exposed to interest rate risk, the majority of the Company's loans being floating rate. The Company's interest rate management policy aims to manage this risk by matching interest-bearing loans payable to those receivable.

Foreign currency risk

The Company has a significant US dollar exposure. The Company did not have a significant exposure to any other individual currency in the financial year under review. The Company seeks to reduce its foreign exchange exposure arising in various currencies through matching, as far as possible, receipts and payments in individual currencies.

Results for the year

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

Post balance sheet events

On 29 February 2008, the Group's subsidiary 120 Campden Hill Road Limited entered into a sale and purchase agreement to sell the property at 120 Campden Hill Road for £8,770,000. On 5 March 2008 the buyer paid a 10% deposit of £877,000 into a treasury reserve account. On completion of the transaction on 29 August 2008 the above deposit was released with total proceeds received being £8,678,997. These proceeds were used to repay bank loans.

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 £200 million (2006: £130 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.

Directors' report *(continued)*

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 (2006 £Nil)

Political and charitable contributions

The group made no political contributions during the year. Donations to UK charities amounted to £1,831,000 (2006 £1,304,000)

Directors

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

GD McCallum

PCK McCall

WE Whitehorn (resigned 1 October 2007)

J Bayliss (appointed 1 October 2007)

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 A R Gerrard
Company Secretary

The School House
50 Brook Green
London
W6 7RR

29 September 2008

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 financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 year.

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 UK 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.

Independent auditors report 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 2007 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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

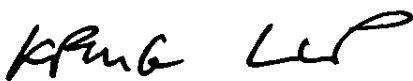
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2007 and of the group's loss 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
Chartered Accountants
Registered Auditor

8 Salisbury Square
London EC4Y 8BB
29 September 2008

Consolidated profit and loss account
for the year ended 31 March 2007

| | <i>Note</i> | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 (Restated) |
|--|-------------|--|---|
| Turnover | | | |
| Continuing operations | 2 | 31,863 | 43,922 |
| Discontinued operations | 2 | - | 110,110 |
| | | <hr/> | <hr/> |
| | | 31,863 | 154,032 |
| Cost of sales | | (8,320) | (103,945) |
| | | <hr/> | <hr/> |
| Gross profit | | 23,543 | 50,087 |
| Distribution costs | | (1,950) | (688) |
| Administrative expenses <i>(Includes exceptional expenditure of £183,380,000, 2006 exceptional income of £103,831,000)</i> | 3 | (249,938) | 13,236 |
| Other operating income | | 2,400 | 3,400 |
| | | <hr/> | <hr/> |
| Group operating (loss) / profit | | | |
| Continuing operations | 2 | (225,945) | 67,555 |
| Discontinued operations | 2 | - | (1,520) |
| | | <hr/> | <hr/> |
| | | (225,945) | 66,035 |
| Share of operating profit of associate | | - | 6,779 |
| | | <hr/> | <hr/> |
| Total operating (loss) / profit | 4 | (225,945) | 72,814 |
| Gain / (loss) on disposal of investments – continuing operations | | 277 | (2,322) |
| Gain on disposal of investments – discontinued operations | | - | 108,315 |
| Loss on disposal of fixed assets | | (3) | (36) |
| | | <hr/> | <hr/> |
| (Loss) / profit before interest and taxation | | (225,671) | 178,771 |
| Dividends receivable | | 41 | 530 |
| Other interest receivable and similar income | 7 | 166,335 | 130,717 |
| Interest payable and similar charges | 8 | (138,277) | (78,428) |
| | | <hr/> | <hr/> |
| (Loss) / profit on ordinary activities before taxation | 3 | (197,572) | 231,590 |
| Tax credit / (charge) on loss on ordinary activities | 9 | 5,714 | (17,324) |
| | | <hr/> | <hr/> |
| (Loss) / profit on ordinary activities after taxation | | (191,858) | 214,266 |
| Minority interest | 20 | 1,307 | 1,944 |
| | | <hr/> | <hr/> |
| (Loss) / profit for the financial year | | (190,551) | 216,210 |

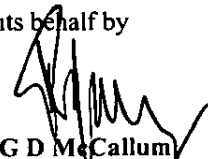
The notes on pages 11 to 36 form part of these financial statements

Consolidated balance sheet
at 31 March 2007

| | <i>Note</i> | 31 March 2007 | | 31 March 2006 | |
|---|-------------|----------------------|------------------|----------------------|-------------------|
| | | £000 | £000 | £000 | £000 |
| | | | | | <i>(Restated)</i> |
| Fixed assets | | | | | |
| Intangible assets | 10 | 8,992 | | 9,937 | |
| Negative goodwill | 10 | (205) | | (205) | |
| Tangible assets | 11 | 18,259 | | 20,223 | |
| Investments | 12 | 16,671 | | 18,445 | |
| | | | 43,717 | | 48,400 |
| Current assets | | | | | |
| Stocks | 13 | 1,761 | | 2,395 | |
| Debtors | 14 | 1,270,743 | | 1,132,660 | |
| Cash at bank and in hand | | 7,958 | | 28,783 | |
| | | 1,280,462 | | 1,163,838 | |
| Creditors amounts falling due within one year | 15 | (1,765,731) | | (1,464,608) | |
| Net current liabilities | | | (485,269) | | (300,770) |
| Total assets less current liabilities | | | (441,552) | | (252,370) |
| Creditors amounts falling due after more than one year | 16 | | (10,046) | | (8,782) |
| Provisions for liabilities and charges | 17 | | (5,050) | | (5,281) |
| Net liabilities | | | (456,648) | | (266,433) |
| 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 | | (787,450) | | (597,998) |
| Equity shareholders' deficit | | | (456,648) | | (267,196) |
| Minority interests | 20 | | - | | 763 |
| | | | (456,648) | | (266,433) |

The notes on pages 11 to 36 form part of these financial statements

These financial statements were approved by the board of directors on *26 September* 2008 and were signed on its behalf by

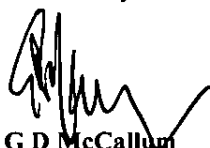

G D McCallum
Director

Company balance sheet
at 31 March 2007

| | <i>Note</i> | 31 March 2007 | | 31 March 2006 | |
|---|-------------|----------------------|------------------|----------------------|------------------|
| | | £000 | £000 | £000 | £000 |
| Fixed assets | | | | | |
| Investments | 12 | | 110,984 | | 110,984 |
| Current assets | | | | | |
| Debtors | 14 | 484,390 | | 615,929 | |
| Cash at bank and in hand | | 81,199 | | 17,391 | |
| | | <u>565,589</u> | | <u>633,320</u> | |
| Creditors* amounts falling due within one year | 15 | <u>(1,309,001)</u> | | <u>(1,200,876)</u> | |
| Net current liabilities | | | (743,412) | | (567,556) |
| Net liabilities | | | (632,428) | | (456,572) |
| Capital and reserves | | | | | |
| Called up share capital | 18 | | 2 | | 2 |
| Share premium | 19 | | 276,487 | | 276,487 |
| Profit and loss account | 19 | | <u>(908,917)</u> | | <u>(733,061)</u> |
| Equity shareholders' deficit | | | (632,428) | | (456,572) |

The notes on pages 11 to 36 form part of these financial statements

These financial statements were approved by the board of directors on *26 September* 2008 and were signed on its behalf by



G D McCallum
Director

Consolidated cash flow statement
for the year ended 31 March 2007

| | <i>Note</i> | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 |
|---|-------------|--|--|
| Net cash flow from operating activities | 25 | (97,373) | (155,022) |
| Returns on investments and servicing of finance | 26 | 1,089 | (673) |
| Taxation | | (226) | - |
| Capital expenditure and financial investment | 26 | 127,807 | (263,281) |
| | | <hr/> 31,297 | <hr/> (418,976) |
| Acquisitions and disposals | 26 | (56) | (78,462) |
| Cash flow before financing | | <hr/> 31,241 | <hr/> (497,438) |
| Financing | 26 | (153,958) | 548,527 |
| (Decrease) / increase in cash in the year | | <hr/> (122,717) | <hr/> 51,089 |

Reconciliation of net cash flow to movement in net debt
for the year ended 31 March 2007

| | <i>Note</i> | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 |
|---|-------------|--|--|
| (Decrease) / increase in cash in the year | | (122,717) | 51,089 |
| Cash inflow / (outflow) from increase in debt and lease financing | | <hr/> 153,958 | <hr/> (548,527) |
| Change in net debt resulting from cash flows | | <hr/> 31,241 | <hr/> (497,438) |
| Settlement of share options | | (2,669) | - |
| Other non cash items | | | |
| New finance leases | | (498) | - |
| Disposal of subsidiary | | - | 55,733 |
| Accrued interest | | (111,226) | (73,699) |
| Other non cash movements | | (98,581) | - |
| Foreign exchange | | 3,020 | 4,075 |
| Movement in net debt in the year | | <hr/> (178,713) | <hr/> (511,329) |
| Net debt at the start of the year | | <hr/> (1,455,955) | <hr/> (944,626) |
| Net debt at the end of the year | 27 | <hr/> (1,634,668) | <hr/> (1,455,955) |

The notes on pages 11 to 36 form part of these financial statements

Consolidated statement of total recognised gains and losses
for the year ended 31 March 2007

| | <i>Note</i> | Year ended 31 March 2007 £000 Group | Year ended 31 March 2006 £000 Group (Restated) |
|--|-------------|--|---|
| (Loss) / profit for the financial year | | | |
| Group | | (190,551) | 209,260 |
| Associate profit | | - | 6,950 |
| | | <hr/> | <hr/> |
| | | (190,551) | 216,210 |
| Unrealised gain on disposal of investment | | - | 19,812 |
| Currency translation differences on net foreign currency investments | 19 | 1,099 | 1,103 |
| | | <hr/> | <hr/> |
| Total recognised (losses) / gains relating to the year | | (189,452) | 237,125 |
| | | <hr/> | <hr/> |
| Prior year adjustment due to adoption of FRS 20 | 19 | (5,818) | |
| | | <hr/> | |
| Total recognised losses since last annual report | | (195,270) | |
| | | <hr/> | |

Reconciliations of movements in shareholders' deficit
for the year ended 31 March 2007

| | Year ended 31 March 2007 £000 Group | Year ended 31 March 2007 £000 Company | Year ended 31 March 2006 £000 Group | Year ended 31 March 2006 £000 Company |
|--|--|--|--|--|
| Total recognised (losses) / gains relating to the year | (189,452) | (175,856) | 237,125 | (15,159) |
| Effect of adoption of FRS 20 as at 1 April 2005 | - | - | (4,115) | - |
| Other | - | - | 91 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Increase in shareholders' deficit | (189,452) | (175,856) | 233,101 | (15,159) |
| Opening shareholders' deficit | (267,196) | (456,572) | (500,297) | (441,413) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Closing shareholders' deficit | (456,648) | (632,428) | (267,196) | (456,572) |
| | <hr/> | <hr/> | <hr/> | <hr/> |

The notes on pages 11 to 36 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

Financial Reporting Standard 20, Share Based Payments, has been adopted in these financial statements for the first time and the disclosures it requires have been presented for both the current and comparative period. The effects of its adoption are disclosed below

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 Holdings 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 2007. 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

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

Notes (continued)

1 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 | - | 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.

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)

1 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 Financial Reporting Standard 19

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

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

Share based payments

The share option programme allows certain employees to acquire options over the shares of certain group companies All share based payments are treated as cash settled transactions as they either require full settlement in cash or where settlement in shares is envisaged the issuer has established the practice of buying out the option at the end of its term The fair value of the amount payable to the employee is recognised as an expense with a corresponding rise in liabilities The fair value is measured at grant date and spread over the period during which employees become unconditionally entitled to payment The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account

The effect of this adjustment has been a charge recognised in accordance with Financial Reporting Standard 20 of £1,940,550 in administration expenses and a decrease in wages and salaries of £2,668,759 Liabilities at 31 March 2007 have increased by £5,090,186 Comparatives for 2006 have been restated accordingly The effect of this adjustment on prior year results has been a charge recognised in accordance with Financial Reporting Standard 20 of £1,703,309 in administration expenses and an increase in liabilities of £5,818,395 at 31 March 2006 Opening reserves as at 1 April 2005 were decreased by £4,115,086 with a corresponding increase in liabilities

Comparative information

Corresponding amounts have been reclassified where necessary to ensure they are comparable with the figures for the current year

Notes (continued)

2 Analysis of continuing and discontinued operations

| | Year ended 31 March 2007 | | | Year ended 31 March 2006 | | |
|---|--------------------------|--------------------|---------------|--------------------------|----------------------------------|-----------------------------|
| | Discontinued £000 | Continuing £000 | Total £000 | Discontinued £000 | Continuing £000 (Restated) | Total £000 (Restated) |
| Turnover | - | 31,863 | 31,863 | 110,110 | 43,922 | 154,032 |
| Less share of joint venture turnover | - | - | - | - | - | - |
| | - | 31,863 | 31,863 | 110,110 | 43,922 | 154,032 |
| Cost of sales | - | (8,320) | (8,320) | (88,439) | (15,506) | (103,945) |
| | - | 23,543 | 23,543 | 21,671 | 28,416 | 50,087 |
| Gross profit | - | 23,543 | 23,543 | 21,671 | 28,416 | 50,087 |
| Distribution costs | - | (1,950) | (1,950) | (342) | (346) | (688) |
| Administrative expenses | - | (249,938) | (249,938) | (27,181) | 40,417 | 13,236 |
| Other operating income | - | 2,400 | 2,400 | 4,332 | (932) | 3,400 |
| | - | (225,945) | (225,945) | (1,520) | 67,555 | 66,035 |
| Group operating (loss) / profit | - | (225,945) | (225,945) | (1,520) | 67,555 | 66,035 |
| Share of operating profit of joint venture and associates | - | - | - | 6,779 | - | 6,779 |
| | - | (225,945) | (225,945) | 5,259 | 67,555 | 72,814 |
| Total operating (loss) / profit | - | (225,945) | (225,945) | 5,259 | 67,555 | 72,814 |

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.

Continuing

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.

3 (Loss) / profit on ordinary activities before taxation

| | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 |
|--|--|--|
| <i>(Loss) / profit on ordinary activities before taxation is stated after charging / (crediting)</i> | | |
| Depreciation of tangible fixed assets | 2,326 | 2,135 |
| Amortisation of negative goodwill on intangible fixed assets | - | (1,699) |
| Amortisation of positive goodwill and other intangible fixed assets | 945 | 709 |
| Impairment of tangible fixed assets | 39 | 47 |
| Amortisation of goodwill on fixed assets investments | - | 1,584 |
| Hire of plant and machinery – rentals payable under operating leases | 8 | 33 |
| Hire of other assets – operating leases | 2,007 | 5,384 |
| Exchange differences | 920 | 363 |
| Rent receivable | (694) | (711) |
| | <hr/> | <hr/> |
| <i>Auditors' remuneration</i> | | |
| Audit of these financial statements | 28 | 19 |
| Amounts receivable by the auditors and their associates in respect of | | |
| Audit of financial statements of subsidiaries pursuant to legislation | 294 | 344 |
| Other services pursuant to such legislation | 7 | 28 |
| | <hr/> | <hr/> |
| Total auditors' remuneration | 329 | 391 |
| | <hr/> | <hr/> |
| <i>The following exceptional items have been charged / (credited) to administration expenses</i> | | |
| | £000 | £000 |
| Provision against amounts due from related undertakings | 218,997 | 65,674 |
| Provision write-backs against amounts due from related undertakings | (35,617) | (169,505) |
| | <hr/> | <hr/> |
| | 183,380 | (103,831) |
| | <hr/> | <hr/> |

Notes (continued)

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

The Group's turnover, operating (loss) / profit and net liabilities are analysed by geographical destination and activity, as follows

| <i>By geographical destination</i> | Turnover £000 | Year ended 31 March 2007 | | Turnover £000 | Year ended 31 March 2006 | |
|--|------------------|--------------------------|-------------------------|------------------|--|---------------------------------------|
| | | Operating loss £000 | Net liabilities £000 | | Operating profit £000 (Restated) | Net liabilities £000 (Restated) |
| UK and Ireland | 16,247 | (210,410) | (857,053) | 105,943 | (77,595) | (675,651) |
| Rest of Europe | 3,585 | (658) | 2,765 | 33,467 | (3,753) | 4,272 |
| Rest of the world | 12,031 | (14,877) | 397,640 | 14,622 | 154,162 | 404,946 |
| | <u>31,863</u> | <u>(225,945)</u> | <u>(456,648)</u> | <u>154,032</u> | <u>72,814</u> | <u>(266,433)</u> |
| Less share of associate revenue/operating (profit) | - | - | - | - | (6,779) | - |
| | <u>31,863</u> | <u>(225,945)</u> | <u>(456,648)</u> | <u>154,032</u> | <u>66,035</u> | <u>(266,433)</u> |

| <i>By activity</i> | Turnover £000 | Year ended 31 March 2007 | | Turnover £000 | Year ended 31 March 2006 | |
|--|------------------|--------------------------|-------------------------|------------------|--------------------------|-------------------------|
| | | Operating loss £000 | Net liabilities £000 | | Operating profit £000 | Net liabilities £000 |
| <i>Discontinued</i> | | | | | | |
| Cars | - | - | - | 73,197 | (2,522) | - |
| Trademark licensing | - | - | - | 8,058 | 4,745 | - |
| Travel | - | - | - | 28,855 | 3,036 | 1,602 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>110,110</u> | <u>5,259</u> | <u>1,602</u> |
| Less share of associate revenue/operating (profit) | - | - | - | - | (6,779) | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>110,110</u> | <u>(1,520)</u> | <u>1,602</u> |

Notes (continued)

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

| By activity | Turnover £000 | Year ended 31 March 2007 | | Turnover £000 | Year ended 31 March 2006 | |
|--|------------------|---------------------------|----------------------------|------------------|---|--|
| | | Operating loss £000 | Net liabilities £000 | | Operating profit £000 (Restated) | Net liabilities £000 (Restated) |
| Continuing | | | | | | |
| Wholesale and retail | 11,523 | (210) | (161,354) | 21,519 | (3,773) | (153,117) |
| Clubs and hotels | 5,493 | (475) | (1,544) | 6,465 | 922 | 307 |
| Merchandising and event management | - | - | - | - | (240) | (5,952) |
| Balloons and airships | - | - | - | - | (3) | (3,104) |
| Management services and other | 14,847 | (225,260) | (293,750) | 15,938 | 70,649 | (106,169) |
| | <u>31,863</u> | <u>(225,945)</u> | <u>(456,648)</u> | <u>43,922</u> | <u>67,555</u> | <u>(268,035)</u> |
| Less share of associate revenue/operating (profit) | - | - | - | - | - | - |
| | <u>31,863</u> | <u>(225,945)</u> | <u>(456,648)</u> | <u>43,922</u> | <u>67,555</u> | <u>(268,035)</u> |

Management services and other includes provisions against amounts due from related parties and a charge for the impairment of goodwill as described in note 9 below

5 Remuneration of directors

| | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 (Restated) |
|---|--|--|
| Directors' emoluments | 6,215 | 2,619 |
| Company contributions to money purchase pension schemes | 113 | 111 |
| | <u>6,328</u> | <u>2,730</u> |

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £2,265,146 (2006 £947,859) Company pension contributions of £28,892 (2006 £53,338) were made on his behalf

| | Number of directors | |
|---|--------------------------------|--------------------------------|
| | Year ended 31 March 2007 | Year ended 31 March 2006 |
| Retirement benefits are accruing to the following number of directors under Money purchase schemes | 3 | 3 |

Notes (continued)

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 2007 | Year ended 31 March 2006 |
| Management and administration | 176 | 443 |
| Selling and distribution | 41 | 149 |
| Operations and other | 158 | 210 |
| | <hr/> | <hr/> |
| | 375 | 802 |
| | <hr/> | <hr/> |

The aggregate payroll costs of these persons were as follows

| | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 (Restated) |
|------------------------------------|--|---|
| Wages and salaries | 30,348 | 30,725 |
| Social security costs | 2,312 | 3,850 |
| Other pension costs | 493 | 519 |
| Other | 179 | 1,045 |
| Share based payments (see note 23) | 1,941 | 1,703 |
| | <hr/> | <hr/> |
| | 35,273 | 37,842 |
| | <hr/> | <hr/> |

Notes (continued)

7 Other interest receivable and similar income

| | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 |
|--|--|--|
| Bank interest | 845 | 1,613 |
| Other interest | 4,099 | 676 |
| Net foreign exchange gains | - | 16,070 |
| Interest receivable from related parties | 161,391 | 109,946 |
| Interest receivable from associates | - | 2,412 |
| | <u>166,335</u> | <u>130,717</u> |

8 Interest payable and similar charges

| | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 |
|--|--|--|
| On bank loans and overdrafts | 3,788 | 2,824 |
| Other interest | 82 | 116 |
| Finance charges payable in respect of finance leases and hire purchase contracts | 25 | 22 |
| Net foreign exchange losses | 23,506 | - |
| Interest payable to related parties | 110,876 | 72,952 |
| Interest payable to associate | - | 2,514 |
| | <u>138,277</u> | <u>78,428</u> |

9 Taxation

| | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 |
|---|--|--|
| <i>UK corporation tax</i> | | |
| Current tax on income for the year | 1,116 | 7,530 |
| Adjusted in respect of prior years | (1,851) | 2,182 |
| | <u>(735)</u> | <u>9,712</u> |
| Foreign tax | 604 | 3,889 |
| | <u>(131)</u> | <u>13,601</u> |
| Total current tax | (131) | 13,601 |
| Deferred tax for year | (2,481) | 127 |
| Adjusted in respect of prior year | (3,083) | 3,225 |
| Non-UK deferred tax | - | 352 |
| Effect of increased / decreased tax rate | (19) | 19 |
| | <u>(5,714)</u> | <u>17,324</u> |
| Tax on (loss) / profit on ordinary activities | (5,714) | 17,324 |

Notes (continued)

9 Taxation (continued)

Factors affecting the tax charge for the current year

The current tax charge/ (credit) for the year is lower (2006 lower) than the standard rate of corporation tax in the UK 30% (2006 30%). The differences are explained below

| | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 (Restated) |
|---|--|--|
| <i>Current tax reconciliation</i> | | |
| (Loss) / profit on ordinary activities before tax | (197,572) | 231,590 |
| Current tax at 30% (2006 30%) | (59,271) | 69,477 |
| <i>Effects of</i> | | |
| Expenses not deductible for tax purposes | 80,932 | 59,148 |
| Income not taxable | (27,692) | (123,930) |
| Capital allowances for period in excess of depreciation | 717 | (133) |
| UK tax losses not utilised or recognised | 2,934 | 1,415 |
| Non-UK tax losses not utilised or recognised | 2,021 | 3,341 |
| Other timing differences | 2,057 | 143 |
| Exchange differences | - | 18 |
| CFC tax | 54 | 2,062 |
| Foreign tax suffered | 387 | 47 |
| UK tax on overseas dividend | 14 | 36 |
| High/low tax rates on overseas earnings | (71) | 250 |
| Utilisation of UK tax losses bought forward | (324) | (127) |
| Utilisation of non-UK tax losses bought forward | (133) | (405) |
| Chargeable gains | 95 | - |
| Adjustment in respect of prior years | (1,851) | 2,259 |
| | <u>(131)</u> | <u>13,601</u> |

Factors that may affect future tax losses

As at 31 March 2007, the group had tax losses and other timing differences available to carry forward of approximately £172 million (2006 £186 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 deferred tax assets recognised and unrecognised are set out below

| | 31 March 2007 Recognised £000 | 31 March 2007 Unrecognised £000 | 31 March 2006 Recognised £000 | 31 March 2006 Unrecognised £000 |
|--------------------------------|--|--|--|--|
| Accelerated capital allowances | 649 | (1,938) | 848 | (1,263) |
| Short term timing differences | (8,888) | (306) | (3,895) | (198) |
| UK tax losses | (118) | (39,159) | (106) | (37,507) |
| Non-UK tax losses | - | (10,157) | (110) | (16,731) |
| | <u>(8,357)</u> | <u>(51,560)</u> | <u>(3,263)</u> | <u>(55,699)</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 2006 | (702) | 72,601 | 743 | 73,344 |
| At 31 March 2007 | (702) | 72,601 | 743 | 73,344 |
| <i>Amortisation and impairments</i> | | | | |
| At 1 April 2006 | (497) | 62,870 | 537 | 63,407 |
| Charged in year | - | 897 | 48 | 945 |
| At 31 March 2007 | (497) | 63,767 | 585 | 64,352 |
| <i>Net book value</i> | | | | |
| At 31 March 2007 | (205) | 8,834 | 158 | 8,992 |
| At 31 March 2006 | (205) | 9,731 | 206 | 9,937 |

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 | Motor vehicles £000 | Total £000 |
|--------------------------|---|--------------------------------|---|---------------------------|---------------|
| <i>Cost or valuation</i> | | | | | |
| At 1 April 2006 | 17,908 | 8,386 | 4,683 | 458 | 31,435 |
| Additions | 636 | 1,239 | 353 | 293 | 2,521 |
| Disposals | - | (721) | (1,414) | (59) | (2,194) |
| Exchange differences | (1,507) | (814) | (321) | (59) | (2,701) |
| At 31 March 2007 | 17,037 | 8,090 | 3,301 | 633 | 29,061 |
| <i>Depreciation</i> | | | | | |
| At 1 April 2006 | 2,535 | 4,944 | 3,416 | 317 | 11,212 |
| Charge for year | 544 | 1,231 | 359 | 192 | 2,326 |
| Impairment | - | - | 39 | - | 39 |
| Disposals | - | (691) | (1,028) | (83) | (1,802) |
| Exchange differences | (250) | (434) | (249) | (40) | (973) |
| At 31 March 2007 | 2,829 | 5,050 | 2,537 | 386 | 10,802 |
| <i>Net book value</i> | | | | | |
| At 31 March 2007 | 14,208 | 3,040 | 764 | 247 | 18,259 |
| At 31 March 2006 | 15,373 | 3,442 | 1,267 | 141 | 20,223 |

Included in the total net book value of Fixtures & Fittings is £17,000 (2006 £17,000) in respect of assets held under finance leases (and similar hire purchase contracts) Depreciation for the year on the assets was £nil (2006 £9,000)

Included in the net book value of Plant & Equipment is £688,000 (2006 £134,000) in respect of assets held under finance lease (and similar hire purchase agreements) Depreciation for the year on the assets was £43,000 (2006 £7,000)

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 £597,000 (2006 £142,000)

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

| | 31 March 2007 £000 | 31 March 2006 £000 |
|---|--------------------------|--------------------------|
| <i>Net book value</i> | | |
| Freehold land and building | 14,126 | 15,287 |
| Leasehold land and buildings | 82 | 86 |
| | 14,208 | 15,373 |
| <i>Depreciation charged in the year</i> | | |
| Freehold land and building | 540 | 516 |
| Leasehold land and buildings | 4 | 5 |
| | 544 | 521 |

Notes (continued)

12 Fixed asset investments

| Group | Listed investments £000 | Unlisted investments £000 | Total investments £000 |
|-------------------------|-------------------------------|---------------------------------|------------------------------|
| <i>Cost</i> | | | |
| At 1 April 2006 | 4,025 | 15,384 | 19,409 |
| Additions | - | 106 | 106 |
| Disposals | - | (2,724) | (2,724) |
| At 31 March 2007 | 4,025 | 12,766 | 16,791 |
| <i>Impairments</i> | | | |
| At 1 April 2006 | - | 964 | 964 |
| Disposals | - | (844) | (844) |
| At 31 March 2007 | - | 120 | 120 |
| <i>Net book value</i> | | | |
| At 31 March 2007 | 4,025 | 12,646 | 16,671 |
| At 31 March 2006 | 4,025 | 14,420 | 18,445 |

On 1 April 2006 the group wrote off its investment in LoveSac Corporation, as the company filed for Chapter 11 bankruptcy on 30 January 2006

On 7 December 2006 the group sold its investment in Portman Film and Television Limited for the consideration of £47,819. The loss on disposal was £2,181

During the year the group subscribed to 8,694 units of membership interest in SAC Acquisition LLC for a total investment of 17.4%

During the year the group wrote off its investment in Convergent Networks Inc, as the company was dissolved. The investment was fully provided for

Notes (continued)

12 Fixed asset investments (continued)

| Company | Shares in group undertakings £000 |
|-------------------------|--|
| <i>Cost</i> | |
| At 1 April 2006 | 111,372 |
| | <hr/> |
| At 31 March 2007 | 111,372 |
| | <hr/> |
| <i>Provisions</i> | |
| At 1 April 2006 | (388) |
| | <hr/> |
| At 31 March 2007 | (388) |
| | <hr/> |
| <i>Net book value</i> | |
| At 31 March 2007 | 110,984 |
| | <hr/> |
| | <hr/> |
| At 31 March 2006 | 110,984 |
| | <hr/> |

On 6 October 2006 the company capitalised loans with Virgin Cars Limited, already fully provided for. The funding was provided for the purpose of placing the company in solvent liquidation as soon as reasonably practical. As a result, Virgin Cars Limited was placed into members' voluntary liquidation on 31 July 2008.

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

| <i>Subsidiary undertakings</i> | Country of Registration | Principal Activity | Holding | Type of share |
|---|-------------------------|--|---------|--|
| Voyager Investments (BVI) Limited* | British Virgin Islands | Holding company | 100% | Ordinary £0.01 shares |
| The Virgin Trading Group Limited* | England & Wales | Investment holding company | 100% | A ordinary £0.0001 shares |
| Vanson Developments Limited | England & Wales | Investment holding company | 100% | Ordinary £1 shares |
| | | | 100% | Ordinary US\$0.0001 shares |
| The Virgin Drinks Group Limited | England & Wales | Wholesaler of Drinks | 100% | Ordinary £1 shares |
| | | | 100% | £1 redeemable preference 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 |
| | | | 100% | £1 Redeemable Preference shares |
| Virgin Projects Limited | England & Wales | Investment holding company | 95.24% | Ordinary 1p shares |
| Virgin Radio France Holdings Limited | England & Wales | Investment holding company | 100% | Ordinary £1 shares |
| 120 Campden Hill Road Limited | England & Wales | Property company | 100% | Ordinary £1 shares |
| S L Insurance Limited | Guernsey | Insurance and reinsurance business | 100% | Ordinary US\$ shares of no par value |
| Necker Island (BVI) Limited | British Virgin Islands | Hotel Operator | 100% | Ordinary US\$1 shares |
| Network Distributing Limited (formerly Sound and Media Limited) | England & Wales | Wholesaler of DVDs | 99.79% | Ordinary £1 shares |
| | | | 100% | Convertible, redeemable £1 preference shares |
| Virgin Life Care Investments Limited | England & Wales | Health & wellness rewards provider | 79.69% | Ordinary £0.0001 A1 shares |
| | | | | Ordinary £0.0001 A2 shares |
| Virgin Limousines (California) LLC | USA | Limousine service | 65% | US\$1 LLC units |
| Oui FM SAS | France | Radio Station | 100% | Ordinary €1 shares |
| Virgin Mobile Holdings Pte Limited | Singapore | Mobile phones | 100% | Ordinary S\$1A class shares |
| | | | | Ordinary S\$1 B class shares |
| Virgin USA Inc | USA | Investment and management services company | 100% | Common stock |
| VML 2 Limited | British Virgin Islands | Investment holding company | 100% | Ordinary US\$ 1 shares |
| Virgin Voyager Limited | England & Wales | Investment holding company | 100% | A ordinary £0.10 shares |
| Virgin Management Asia Pacific Pty Limited | Australia | Investment and management services company | 100% | Ordinary A\$1 shares |

* Direct investment held by Barfair Limited

Notes (continued)

13 Stocks

| Group | 31 March 2007 £000 | 31 March 2006 £000 |
|-------------------------------------|--------------------------|--------------------------|
| Raw materials and consumables | 228 | 234 |
| Finished goods and goods for resale | 1,533 | 2,161 |
| | <u>1,761</u> | <u>2,395</u> |

14 Debtors

| | Group 31 March 2007 £000 | Company 31 March 2007 £000 | Group 31 March 2006 £000 | Company 31 March 2006 £000 |
|---|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| Trade debtors | 4,080 | - | 3,209 | - |
| Amounts owed by subsidiary undertakings | - | 139,983 | - | 108,546 |
| Amounts owed by related undertakings | 1,153,773 | 335,085 | 1,108,947 | 503,260 |
| Other debtors | 97,404 | 16 | 9,723 | 250 |
| Group relief debtor | 2,781 | - | 2,781 | - |
| Tax and other social security | 26 | - | 415 | - |
| Deferred tax asset | 8,357 | 8,889 | 3,263 | 3,873 |
| Prepayments and accrued income | 4,322 | 417 | 4,322 | - |
| | <u>1,270,743</u> | <u>484,390</u> | <u>1,132,660</u> | <u>615,929</u> |

15 Creditors amounts falling due within one year

| | Group 31 March 2007 £000 | Company 31 March 2007 £000 | Group 31 March 2006 £000 (Restated) | Company 31 March 2006 £000 |
|---|-----------------------------------|-------------------------------------|---|-------------------------------------|
| Bank loans and overdrafts | 107,810 | - | 5,933 | - |
| Finance lease obligations | 174 | - | 75 | - |
| Trade creditors | 5,287 | - | 7,760 | - |
| Amounts owed to subsidiary undertakings | - | 192,408 | - | 262,309 |
| Amounts owed to related undertakings | 1,610,395 | 1,080,505 | 1,387,305 | 903,216 |
| Corporation tax | 11,276 | 35,879 | 12,030 | 35,208 |
| Group relief creditor | 4,645 | - | 4,645 | - |
| Other tax and social security | 1,331 | - | 1,430 | - |
| Other creditors | 17,104 | - | 38,525 | - |
| Accruals and deferred income | 7,709 | 209 | 6,905 | 143 |
| | <u>1,765,731</u> | <u>1,309,001</u> | <u>1,464,608</u> | <u>1,200,876</u> |

Notes (continued)

16 Creditors: amounts falling due after more than one year

| | 31 March 2007 £000 | 31 March 2006 £000 |
|-----------------------------|--------------------------|--------------------------|
| Group | | |
| Bank loans | 6,620 | 7,529 |
| Other creditors | 2,703 | 688 |
| Finance lease obligations | 677 | 287 |
| Accruals and prepaid income | 46 | 278 |
| | <u>10,046</u> | <u>8,782</u> |

Analysis of bank loans and overdrafts as falling due

| | 31 March 2007 £000 | 31 March 2006 £000 |
|--------------------------------------|--------------------------|--------------------------|
| Group | | |
| Loans can be analysed as falling due | | |
| In one year or less, or on demand | 107,810 | 5,933 |
| Between one and two years | 455 | 468 |
| Between two and five years | 2,016 | 1,640 |
| In five years or more | 4,149 | 5,421 |
| | <u>114,430</u> | <u>13,462</u> |

Analysis of finance leases as falling due:

| | 31 March 2007 £000 | 31 March 2006 £000 |
|---|--------------------------|--------------------------|
| Group | | |
| Finance leases can be analysed as falling due | | |
| In one year or less, or on demand | 174 | 75 |
| Between one and two years | 182 | 73 |
| Between two and five years | 495 | 214 |
| | <u>851</u> | <u>362</u> |

Notes (continued)

17 Provisions for liabilities and charges

| Group | Provision for closure costs £000 | Other provisions £000 | Total £000 |
|--------------------------------------|---|-----------------------------|---------------|
| At 1 April 2006 | 147 | 5,134 | 5,281 |
| Further provisions and write backs | 169 | 723 | 892 |
| Utilised in year | - | (1,050) | (1,050) |
| Amounts released unused | - | (9) | (9) |
| Adjustments in respect of prior year | - | (64) | (64) |
| At 31 March 2007 | 316 | 4,734 | 5,050 |

18 Called up share capital

| | 31 March 2007 £000 | 31 March 2006 £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 (Restated) |
|--|-----------------------|------------------------|--|
| At 1 April 2006 | 276,487 | 54,313 | (592,180) |
| Effect of adoption of FRS 20 at 1 April 2006 | - | - | (5,818) |
| Adjusted balance at 1 April 2006 | 276,487 | 54,313 | (597,998) |
| Loss for the year | - | - | (190,551) |
| Exchange movements | - | - | 1,099 |
| At 31 March 2007 | 276,487 | 54,313 | (787,450) |

| Company | Share premium £000 | Profit and loss account £000 |
|-------------------|-----------------------|------------------------------------|
| At 1 April 2006 | 276,487 | (733,061) |
| Loss for the year | - | (175,856) |
| At 31 March 2007 | 276,487 | (908,917) |

Notes (continued)

20 Minority interests

| | 31 March 2007 £000 | 31 March 2006 £000 |
|----------------------------------|--------------------------|--------------------------|
| Group | | |
| At 1 April 2006 | 763 | 4,281 |
| Share of loss for year | (1,307) | (1,944) |
| Dividends received by minorities | - | (177) |
| Purchase of MI | - | (1,928) |
| Disposal of subsidiary | 675 | 475 |
| Foreign exchange | (131) | 56 |
| | <hr/> | <hr/> |
| At 31 March 2007 | - | 763 |

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 £200 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 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.

Network Distributing Limited (formerly Sound and Media Limited) has given a guarantee to the bank for the indebtedness of the company and its subsidiary undertakings. The contingent liability of the company was £3.3 million as at 31 March 2007 (2006: £3.3 million).

The Virgin Drinks group is party to an overdraft facility of up to £1.0 million, repayable on demand, subject to an unlimited group guarantee and set off arrangement.

A claim has been filed in the Delaware Bankruptcy Court by G&G, a creditor of The LoveSac Corporation ("LoveSac"), against Millevere Holdings Limited and other investors in LoveSac. The claim is in relation to a revolving line of credit of US\$2,800,000 provided by G&G to LoveSac. The law firm appointed by Millevere and the other investors has estimated that the chances of the claim succeeding are less than 50%. Millevere would be liable for 17.4% of any successful claim. It has also been estimated that 50% of the legal costs incurred in conjunction with the claim are likely to be covered by insurance. As at the end of May 2008 legal costs of US\$367,500 had been incurred and Millevere will be liable to pay 17.4% of this amount before any insurance cover.

Notes (continued)

22 Commitments

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

| Group | 31 March 2007 Land and buildings £000 | 31 March 2007 Other £000 | 31 March 2006 Land and Buildings £000 | 31 March 2006 Other £000 |
|--|---|-----------------------------------|---|-----------------------------------|
| Operating leases which expire | | | | |
| Within one year | 1,352 | 27 | 102 | 83 |
| In the second to fifth years inclusive | 253 | 279 | 1,765 | 288 |
| Over five years | 1,031 | - | 1,339 | - |
| | <u>2,636</u> | <u>306</u> | <u>3,206</u> | <u>371</u> |

Capital commitments

| Group | 31 March 2007 £000 | 31 March 2006 £000 |
|------------------------|--------------------------|--------------------------|
| Contracted commitments | <u>4,050</u> | <u>-</u> |

23 Pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the fund and amounted to £493,000 (2006 £519,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

24 Share based payments

The share option programme allows certain employees to acquire options over the shares of certain group companies, namely Bluebottle USA Mobile Inc, Virgin Mobile Holdings (UK) Limited (formerly Virgin Mobile Holdings (UK) Plc), Virgin Rail Group Holdings Limited and Trainline Holdings Limited. There is also a group employer share scheme in operation, the Long Term Incentive Plan, based on the increase in value of Corvina Holdings Limited over certain thresholds.

All share based payments are treated as cash settled transactions as they either require settlement in cash or where settlement in shares is envisaged the issuer has established the practice of buying out the award at the end of the term. The fair value of the payment payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

Awards typically vest over a period of between 12 and 36 months.

Notes (continued)

24 Share based payments (continued)

The number and weighted average exercise of share options in the above named companies are as follows

Bluebottle USA Mobile Inc

| Financial year granted | Outstanding as at 1 April 2006 | Granted in year | Exercised in year | Outstanding at 31 March 07 | Exercisable at 31 March 2007 | Weighted average exercise price US\$ |
|------------------------|--------------------------------|-----------------|-------------------|----------------------------|------------------------------|--------------------------------------|
| 2004 | 4,636,362 | - | - | 4,636,362 | 4,636,362 | 0.50 |
| 2006 | 584,964 | - | - | 584,964 | 5,84,964 | 0.10 |
| | <u>5,221,326</u> | <u>-</u> | <u>-</u> | <u>5,221,326</u> | <u>5,221,326</u> | |

All share options granted in 2004 are exercisable before the tenth anniversary of grant date. The share options granted in 2006 are exercisable before 31 December 2007.

Virgin Mobile Holdings (UK) Limited (formerly Virgin Mobile Holdings (UK) Plc)

| Financial year granted | Outstanding as at 1 April 2006 | Granted in year | Exercised in year | Outstanding at 31 March 07 | Exercisable at 31 March 2007 | Weighted average exercise price £ |
|------------------------|--------------------------------|-----------------|-------------------|----------------------------|------------------------------|-----------------------------------|
| 2005 | 1,058,083 | - | 1,058,083 | - | - | 1.71 |
| | <u>1,058,083</u> | <u>-</u> | <u>1,058,083</u> | <u>-</u> | <u>-</u> | |

Virgin Rail Group Holdings Limited

| Financial year granted | Outstanding as at 1 April 2006 | Granted in year | Exercised in year | Outstanding at 31 March 07 | Exercisable at 31 March 2007 | Weighted average exercise price £ |
|------------------------|--------------------------------|-----------------|-------------------|----------------------------|------------------------------|-----------------------------------|
| 2004 | 11 | - | 11 | - | - | 0.10 |
| | <u>11</u> | <u>-</u> | <u>11</u> | <u>-</u> | <u>-</u> | |

Tranline Holdings Limited

| Financial year granted | Outstanding as at 1 April 2006 | Granted in year | Exercised in year | Outstanding at 31 March 07 | Exercisable at 31 March 2007 | Weighted average exercise price £ |
|------------------------|--------------------------------|-----------------|-------------------|----------------------------|------------------------------|-----------------------------------|
| 2004 | 9,702 | - | 9,702 | - | - | 1.00 |
| | <u>9,702</u> | <u>-</u> | <u>9,702</u> | <u>-</u> | <u>-</u> | |

Notes (continued)

24 Share based payments (continued)

Group Share Scheme

Long Term Incentive Plan

At the end of 2006 entitlements were granted to certain members of the plan giving them the right to receive a cash payment on exercise based on the growth in value of shares in Corvina Holdings Limited. The entitlements do not give a right to receive shares in the Company. Subject to the Rules of the Scheme, the entitlements may be exercised between 31 October 2009 and 30 November 2009.

The entitlements give the members the right to receive 2.67% of the growth in the value of Corvina Holdings Limited above an annual threshold of 5.00%. The members of the plan did not pay any consideration for the options received.

Financial Impact of the Group Share Schemes

A valuation of Corvina Holdings Limited and its subsidiaries was determined as at 11 August 2006 using various methods, including quoted share prices, net assets, discounted cash flows and/or multiple of earnings.

The market value of the initial interests in the Group Share Schemes was calculated using a Binomial model, based on the following assumptions:

| | |
|-------------------------|--------|
| Risk free rate | 4.90% |
| Volatility | 29.00% |
| Expected dividend yield | 0.00% |

The volatility was arrived at by identifying appropriate volatilities for the key businesses within the Group by reference to listed comparator companies and then weighting these across the Group based on the estimated relative value of the constituent businesses.

On this basis the interests in the Group Share Schemes were estimated to be valued at £12,490,196. This cost is being spread over the vesting period, which is 36 months. A charge of £1,387,800 (2006: £nil) has arisen during the year of which £nil (2006: £nil) relates to an increase in the fair value of the liability during the year.

Effect of share based payment transactions

The total expenses recognised for the year, including those relating to the Group Share Schemes, arising from share based payments together with the associated liabilities are as follows:

| | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 |
|--|--|--|
| Cash settled share based payments | 1,941 | 1,703 |
| Liabilities falling due within one year | 3,702 | 5,818 |
| Liabilities falling due after one year | 1,388 | - |
| Total carrying amount of liabilities | 5,090 | 5,818 |
| Total intrinsic carrying amount of liabilities in respect of vested benefits | 3,702 | 2,309 |

Various directors are members of Executive Share Ownership Plans which have been established via contracts they hold with Virgin Group Holdings Limited and Gamay Holdings Limited. A charge of £3,733,000 (2006: £nil) is included in Virgin Group Holdings Limited's financial statements for the year ended 31 March 2007 in respect of directors of Virgin Management Limited in relation to these arrangements.

Notes *(continued)*

25 Reconciliation of operating profit to operating cash flows

| | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 <i>(Restated)</i> |
|---|--|---|
| Group operating (loss) / profit | (225,945) | 72,814 |
| Executive share options | 1,941 | 1,703 |
| Depreciation, amortisation and impairment charges | 5,145 | 1,267 |
| Provision against bad debts | 218,997 | 65,674 |
| Decrease in stocks | 634 | 9,574 |
| Increase in debtors | (92,606) | (293,520) |
| Decrease in creditors | (5,308) | (16,959) |
| (Decrease) / increase in provisions | (231) | 4,386 |
| Increase in foreign exchange | - | 39 |
| Net cash flow from operating activities | (97,373) | (155,022) |

Notes (continued)

26 Analysis of cash flows

| | Year ended 31 March 2007 £000 | Year ended 31 March 2006 £000 |
|---|--|--|
| Returns on investment and servicing of finance | | |
| Interest received | 4,636 | 2,289 |
| Interest paid | (3,588) | (2,962) |
| Dividends received | 41 | - |
| | <u>1,089</u> | <u>(673)</u> |
| Capital expenditure and financial investment | | |
| Purchase of fixed assets | (2,020) | (4,318) |
| Sale of fixed assets | 389 | 257 |
| Funding to related undertakings | (526,984) | (475,371) |
| Repayments from related undertakings | 656,422 | 216,151 |
| | <u>127,807</u> | <u>(263,281)</u> |
| Acquisitions and disposals | | |
| Cash acquired with subsidiaries | - | 499 |
| Cash disposed with subsidiaries | - | (68,436) |
| Purchase of investment in subsidiary | (106) | (9,335) |
| Disposal of investments | 50 | 277 |
| Purchase of minority interests | - | (1,967) |
| Disposal of minority interests | - | 500 |
| | <u>(56)</u> | <u>(78,462)</u> |
| Financing | | |
| Decrease in bank loans | (737) | (729) |
| Increase in other borrowings | - | 280,958 |
| Finance lease repayments | (9) | - |
| Funding from related undertakings | 123,258 | 373,983 |
| Repayments to related undertakings | (273,801) | (105,685) |
| Settlement of share options | (2,669) | - |
| | <u>(153,958)</u> | <u>548,527</u> |

Notes (continued)

27 Analysis of net debt

| | 1 April 2006 £000 | Cash flow £000 | Share options £000 | Non-cash £000 | 31 March 2007 £000 |
|----------------------------------|----------------------|-------------------|-----------------------|------------------|-----------------------|
| Cash at bank and in hand | 28,783 | (20,825) | - | - | 7,958 |
| Overdrafts | (5,500) | (99,223) | (2,669) | - | (107,392) |
| | <u>23,283</u> | <u>(120,048)</u> | <u>(2,669)</u> | <u>-</u> | <u>(99,434)</u> |
| Bank loans | (7,962) | 737 | - | 187 | (7,038) |
| Obligations under finance leases | (362) | 9 | - | (498) | (851) |
| Group funding | (1,470,914) | 150,543 | - | (206,974) | (1,527,345) |
| | <u>(1,455,955)</u> | <u>31,241</u> | <u>(2,669)</u> | <u>(207,285)</u> | <u>(1,634,668)</u> |

28 Related party disclosures

At 31 March 2007 the company's ultimate parent company was Virgin Group Holdings Limited whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Holdings Limited. The principal beneficiaries of those trusts are Sir Richard Branson and/or his immediate family. The shareholders of Virgin Group Holdings Limited have interests directly or indirectly in certain other companies, which give rise to related party disclosures under Financial Reporting Standard No 8.

| | 31 March 2007 | | | 31 March 2006 | | |
|----------------------|---|--|---|---|--|---|
| | Companies related by virtue of common control or ownership £000 | Companies related by virtue of being associates of the Group £000 | Companies related by virtue of being investors in the Group £000 | Companies related by virtue of common control or ownership £000 | Companies related by virtue of being associates of the Group £000 | Companies related by virtue of being investors in the Group £000 |
| Turnover | 5,660 | 47 | - | 17,642 | - | - |
| Purchases | 1,531 | - | - | 2,954 | - | - |
| Other income | 1,836 | - | - | 50 | - | - |
| Interest receivable | 161,391 | - | - | 109,946 | - | - |
| Interest payable | 110,876 | - | - | 72,952 | - | - |
| Debtors | 1,153,773 | 31 | - | 1,108,947 | - | - |
| Creditors < 1 year | 1,610,395 | - | - | 1,386,591 | - | 714 |
| Dividends receivable | - | 41 | - | - | - | - |

Notes (continued)

28 Related party disclosures (continued)

Intercompany funding balances due to and from related undertakings attract a variety of interest rates

The companies related by virtue of common control or ownership with which the group transacted during the year are as follows

Bluebottle Mobile Canada Inc, Bluebottle Investment Inc, Bluebottle Investments (UK) Limited, Bluebottle Investments SA, Bluebottle UK Limited, Bluebottle USA Holdings Inc, Bluebottle USA Holdings LP, Bluebottle USA Investments LP, Bluebottle USA Mobile Inc, Carola Holdings Limited, Charter Air Limited, China Holdings (Wireless) Limited, Cricket SA, Dragonfly SA, Exitium Limited, Ivanco (No 3) Limited, Mayfly SA, Newstart Investments Limited, Package Holidays Direct Limited, Rapido TV Investments Limited, SA Mauritius Investments Limited, Stem Cells Holdings Limited, Trainline Holdings Limited, VBV LLC, Victory Corporation Limited, Virgin Active Group Limited, Virgin Radio Asia Holdings UK Limited, Virgin Atlantic Limited, Virgin Audio Limited, Virgin Books Limited, Virgin Cars Limited, Virgin Cars (Holdings) Limited, Virgin Cinemas Group Limited, Virgin D3 Limited, Virgin Enterprises Limited, Virgin Entertainment Asia Limited, Virgin Entertainment Global Limited, Virgin Entertainment Holdings Inc, Virgin Entertainment Japan KK, Virgin Fitness Limited, Virgin Galactic Limited, Virgin Galactic LLC, Virgin Group Finance LP, Virgin Group Holdings Limited, Virgin Group Investments Limited, Virgin Health Bank Limited, Virgin Holdings Limited, Virgin Holdings SA, Virgin Home Limited, Virgin Hotels Group Limited, Virgin Investments SA, Virgin Leisure Limited, Virgin Limobike Limited, Virgin Mobile Australia (Pty) Limited, Virgin Mobile Holdings (UK) Limited (formerly Virgin Mobile Holdings (UK) Plc), Virgin Mobile South Africa (Pty) Limited, Virgin Mobile USA Holdings Limited, Virgin Mobile USA, LP (formerly Virgin Mobile USA LLC), Virgin Money (Australia) Pty Limited, Virgin Money Holdings (UK) Limited, Virgin Money Investment Group Limited, Virgin Money Investment Holdings Limited, Virgin Money Overseas Limited, Virgin Money (South Africa) Pty Limited, Virgin Performance Limited, Virgin Property Limited, Virgin Pulse Holdings LLC, Virgin Pulse (UK) Limited, Virgin Radio Asia Holdings UK Limited, Virgin Rail Group Holdings Limited, Virgin Retail Espana SL, Virgin Retail Europe Limited, Zavvi Group Limited (formerly Virgin Retail Group Limited), Virgin Retail Investment Holdings Limited, Zavvi Retail Limited (formerly Virgin Retail Limited), Virgin Travelstore Limited, Virgin Ventures Limited, Virgin Wings Limited, Virgin com Limited, VMUI Inc and Zinfandel Holdings Limited

The companies related by virtue of being associates and/or joint ventures of the group with which the group transacted during the year are as follows

Virgin Blue Holdings Limited

The companies related by virtue of being investors in the group with which the group transacted during the year are as follows

Sir Richard Branson and the Trusts

29 Post balance sheet events

On 29 February 2008, the Group's subsidiary 120 Campden Hill Road Limited entered into a sale and purchase agreement to sell the property at 120 Campden Hill Road for £8,770,000. On 5 March 2008 the buyer paid a 10% deposit of £877,000 into a treasury reserve account. On completion of the transaction on 29 August 2008 the above deposit was released with total proceeds received being £8,678,997. These proceeds were used to repay bank loans.

30 Ultimate parent undertaking

As at 31 March 2007, the ultimate parent company was Virgin Group Holdings Limited, a company registered in the British Virgin Islands.