Virgin Sky Investments Limited

Directors' report and consolidated financial statements

Registered number 4415765

For the 14 month period to 31 March 2004

Contents

Directors' report

The directors present their report and the audited financial statements for the 14 month period ended 31 March 2004. The comparatives are for 42 weeks.

During the period the Company changed its year end from 31 January to 31 March.

Principal activities

The principal activity of the Company is that of an investment holding company in relation to its subsidiaries and other affiliated companies.

The activities of the principal subsidiary companies are detailed in note 11 and principally relate to the operation of scheduled air services for the carriage of passengers and freight.

Business review

The results for the period are set out on page 5 of the financial statements and the profit for 14 month period of £85,782,000 (2003: loss for 42 week period of £11,484,000) has been transferred to group reserves.

During the year the Group's holding in Virgin Blue Holdings Pty Limited was reduced from 46% to 25.1% as a result of a group reorganisation followed by a sale on the initial public offering for consideration of £117,604,000 realising a gain of £104,364,000.

Post balance sheet events

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

On April 12, 2005, Virgin Express Holdings plc satisfied the final conditions precedent to the common ownership agreement signed on October 5, 2004 and VE Belgium was transferred to SN Air in consideration for an issue of 29.9% of the capital in SN Air.

On 18th February 2005 Virgin Sky Investments Limited acquired a new wholly owned subsidiary, Vexair Limited. On April 12, 2005 Vexair Limited entered into a conditional agreement with Virgin Express Holdings plc to buy its entire interest in SN Air for €54 million ("the Vexair Sale and Purchase Agreement"). This agreement is conditional on the passing of certain resolutions at an Extraordinary General Meeting of Virgin Express Holdings plc to be held on 9th May 2005. As part of this agreement, Vexair Limited will also assume the liabilities of Virgin Express Holdings plc in connection with the interest in SN Air, including warranty and indemnity liability pursuant to the common ownership agreement entered into with SN Air on October 5, 2004.

On 15th April 2005, the board of Virgin Express Holdings plc posted a circular to its shareholders in connection with a proposed members' voluntary liquidation whereby, subject to the necessary shareholder resolutions being passed at the EGM to be held on 9th May and completion of the Vexair Sale and Purchase Agreement, the debt due to Virgin Sky Investment Limited by Virgin Express Holdings plc will be repaid in full and the minority shareholders of Virgin Express Holdings plc will be paid a final distribution of €1 a share.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors' report *(Continued)*

Employees

In considering applications for employment from disabled people in the UK, the group seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant against the requirements of the jobs for which he or she has applied. Employees who become temporarily or permanently disabled are given individual consideration, and where possible equal opportunities for training, career development and promotions are given to disabled persons.

Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the group and are of interest and concern to them as employees. The Group also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them.

Directors and their interests

The directors of the Company during the period and their interests in the shares of the Company as recorded in the register of directors' interests were as follows:

A J Renouf (alternates S O'Callaghan, resigned 16 August 2004 and A Relph, appointed 28 September 2004)
N M Ritchie (alternate F Dearie)

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

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.

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG LLP will therefore continue in office.

By order of the board

Abacus Secretaries (Jersey) Limited
Joint Company Secretary

La Motte Chambers
St Helier
Jersey
JE1 1BJ

5th May 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Report of the independent auditors, KPMG LLP, to the members of Virgin Sky Investments Limited

We have audited the financial statements on pages 5 to 29.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2004 and of the profit of the Group for the 14 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB
16 May 2005

Consolidated profit and loss account

for the 14 month period ended 31 March 2004

	Notes	14 month period ended 31 March 2004 £000	42 week period ended 31 January 2003 (Restated – see note 1) £000
Turnover		***318,612***	*154,103*
Less share of joint venture's turnover		**(184,909)**	(113,538)
Group turnover	*1,2*	**133,703**	40,565
Cost of sales		**(65,587)**	(21,026)
Gross profit		**68,116**	19,539
Distribution costs		-	(2,220)
Administrative expenses	*3*	**(105,965)**	(20,582)
Group operating loss	*2,3*	**(37,849)**	(3,263)
Share of operating profit of joint venture	*11*	**21,522**	10,221
Share of operating profit of associate	*11*	**5,196**	-
Total operating profit		**(11,131)**	6,958
Gain on partial disposal of investment in joint venture	*11*	**104,364**	-
Profit on ordinary activities before interest and taxation		**93,233**	6,958
Other interest receivable and similar income	*4*	**13,121**	1,219
Interest payable and similar charges	*5*	**(7,730)**	(1,634)
Profit on ordinary activities before taxation	*2-8*	**98,624**	6,543
Tax on profit on ordinary activities	*8*	**(12,692)**	(8,855)
Profit/(loss) on ordinary activities after taxation		**85,932**	(2,312)
Minority interest	*20*	**(150)**	(9,172)
Retained profit/(loss) for the period		**85,782**	(11,484)

The results for the period and the preceding period shown above were derived from continuing operations.

The notes on pages 10 to 29 form part of these financial statements.

Consolidated statement of total recognised gains and losses
for the 14 month period ended 31 March 2004

	Notes	14 month period ended 31 March 2004 £000	42 week period ended 31 January 2003 (Restated – see note 1 £000
Profit/(loss) for the financial period		**85,782**	(11,484)
Exchange difference arising on consolidation	*19*	**(1,212)**	(2,485)
Total recognised gains/(losses) relating to the period		**84,570**	(13,969)
Prior year adjustment (see note 1)		**(4,650)**	
Total recognised gains/(losses) since last report		**79,920**	

The notes on pages 10 to 29 form part of these financial statements.

Consolidated balance sheet
at 31 March 2004

	Notes		**31 March 2004 £000**		31 January 2003 £000
Fixed assets					
Intangible assets	*9*		**21,788**		22,968
Tangible assets	*10*		**1,588**		2,282
Investments					
Share of assets in joint venture	*11*	-		92,712	
Share of liabilities in joint venture	*11*	-		(64,442)	
Unamortised goodwill in joint venture	*11*	-		74,547	
		-		102,817	
Investment in associate	*11*	**101,272**		-	
			101,272		102,817
			124,648		128,067
Current assets					
Stocks	*12*		**213**		162
Debtors	*13*		**174,186**		33,046
Current investments			-		120
Cash at bank and in hand	*14*		**18,982**		12,561
			193,381		45,889
Creditors: amounts falling due within one year	*15*		**(131,342)**		(76,936)
Net current assets			**62,039**		(31,047)
Total assets less current liabilities			**186,687**		97,020
Provisions for liabilities and charges	*16*		**(2,834)**		(4,629)
Net assets			**183,853**		92,391
Capital and reserves					
Called up share capital	*17*		**2**		2
Share premium	*18*		**101,216**		101,216
Profit and loss account	*18*		**82,041**		(9,319)
Equity shareholders' funds	*20*		**183,259**		91,899
Minority interest	*19*		**594**		492
			183,853		92,391

The notes on pages 10 to 29 form part of these financial statements.
These financial statements were approved by the board of directors on 5th May 2005 and were signed on its behalf by:

Director

N M Ritchie

Company balance sheet
at 31 March 2004

	Notes	31 March 2004 £000	31 January 2003 £000
Fixed assets			
Investments	*11*	**86,592**	34,441
Current assets			
Debtors	*13*	**92,055**	69,910
Creditors: amounts falling due within one year	*15*	**(77,628)**	(964)
Net current assets		**14,427**	68,946
Net assets		**101,019**	103,387
Capital and reserves			
Called up share capital	*17*	**2**	2
Share premium	*18*	**101,216**	101,216
Profit and loss account	*18*	**(199)**	2,169
Equity shareholders' funds	*20*	**101,019**	103,387

The notes on pages 10 to 29 form part of these financial statements.

These financial statements were approved by the board of directors on 5th May 2005 and were signed on its behalf by:

Director

N M Ritchie

Consolidated cash flow statement

for the 14 month period ended 31 March 2004

	Notes	14 month period ended 31 March 2004 £000	42 week period ended 31 January 2003 £000
Cash flow from operating activities	22	**(13,214)**	(207)
Returns on investments and servicing of finance	23	**(256)**	(6)
Taxation		**-**	(135)
Capital expenditure and financial investment	23	**(619)**	(316)
		(14,089)	(664)
Acquisitions and disposals	23	**35**	14,863
Equity dividends paid		**(54)**	(56)
Cash inflow before financing		**(14,108)**	14,143
Financing	23	**20,529**	(1,582)
Increase in cash in the period	24	**6,421**	12,561

Reconciliation of net cash flow to movement in net debt

for the 14 month period ended 31 March 2004

	Notes	14 month period ended 31 March 2004 £000	42 week period ended 31 January 2003 £000
Increase in cash in the period		**6,421**	12,561
Cash inflow from decrease in debt and lease financing	24	**10**	6
Cash inflow from increase in debt financing	24	**(20,539)**	1,576
Change in net debt resulting from cash flows		**(14,108)**	14,143
Loans and finance leases acquired with subsidiary	24,25	**-**	(16)
Debt due to related parties acquired with subsidiary	24,25	**(9,885)**	(20,211)
Debt left outstanding with related party on acquisition	24,25	**(29,748)**	-
Non cash movement on loans from related parties	24	**(4,049)**	(3,768)
Foreign exchange	24	**534**	(921)
Movement in net debt in the period		**(57,256)**	(10,773)
Net debt at the start of the period		**(10,773)**	-
Net debt at the end of the period	24	**(68,029)**	(10,773)

The notes on pages 10 to 29 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 except as noted below. The loss for the period ended 31 January 2003 has been restated, as set out in the section "Employee share options" below.

Basis of preparation

The financial statements have been prepared on a going concern basis in view of the fact that the ultimate parent undertaking Virgin Group Investments Limited has formally indicated that it will provide sufficient funding to the Company, to enable it to meet its liabilities as they fall due, for at least the next twelve months.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings for the 14 month period ended 31 March 2004. Virgin Express Holdings plc prepares accounts to 31 December and has been consolidated for 11 months to 31 December 2003 as it was not considered practicable to use interim financial information for the purpose of consolidation. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

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

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

Fixed assets and depreciation

Tangible fixed assets are included at cost.

Depreciation is provided at various rates in order to write off the cost of tangible fixed assets less residual value over their anticipated useful lives, or the periods of the underlying finance leases, if shorter.

Expenditure incurred on modifications to aircraft under operating lease is depreciated on a straight line basis to a nil residual value over a period not exceeding the lease period.

Other tangible fixed assets are depreciated at the following rates:

Leasehold improvements	-	20% on cost
Fixtures and fittings	-	20% on cost
Plant and equipment	-	20% on cost
Motor Vehicles	-	20 – 25% on cost

Intangible fixed assets

Software licenses are capitalised as intangible fixed assets and amortised on a straight line basis over a period not exceeding five years.

Notes *(continued)*

Goodwill and amortisation

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. The directors consider each acquisition separately for the purposes of determining the appropriate amortisation period. All goodwill is currently amortised over 20 years.

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

Investments

In the company's accounts, investments in subsidiary and associated undertakings are stated at cost less amounts written off. Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

Stocks

Stock of tax free goods and catering supplies are carried at the lower of cost or net realisable value.

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.

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.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. 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 of overseas subsidiary undertakings and associated undertakings are translated at the closing exchange rates. The profit and loss account of such undertakings are translated at the average rate of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Turnover

Turnover 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)*

Pensions and other post retirement benefits

The group operates, in conjunction with other Virgin group companies, defined contribution schemes for its employees and executives. The assets of the schemes are held separately from those of the group in independently administered funds. The pension cost represents contributions payable by the group to the funds.

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.

Employee share options

The estimated cost of share options awarded to the group's employees is calculated in accordance with UITF Abstract 17 *Employee share schemes* as the difference between the market value of the shares and the exercise price, at the date of grant of option. The cost is expensed through the profit and loss account on a straight line basis over the period to which the performance criteria of the plans relate. An equivalent amount is added directly back to the profit and loss account within reserves as the group's net assets will be unaffected by the issue of shares should the options be exercised.

In the period ended 31 January 2003, Virgin Blue Holdings Pty (previously a joint venture, now an associate) did not record a cost for share options issued. The profit and loss account for the period ended 31 January 2003 has been restated to record the cost of share options granted by Virgin Blue Holdings Pty. This has increased the retained loss for the period ended 31 January 2003 by £4,651,000. There was no effect on earlier periods. Net assets at 31 January 2003 were not affected by this change.

2 Analysis of turnover, profit on ordinary activities before interest and taxation and net assets

The Group has a single line of business, operating as an airline and accordingly no segmental information by activity is provided.

By geographical market	**14 month period ended 31 March 2004**	**14 month period ended 31 March 2004**	**14 month period ended 31 March 2004**	42 week period ended 31 January 2003	42 week period ended 31 January 2003 (restated – see note 1)	31 January 2003
	Turnover	**Group operating profit/(loss)**	**Net operating assets/ (liabilities)**	Turnover	Group operating profit/(loss)	Net operating assets/ (liabilities)
	£000	**£000**	**£000**	£000	£000	£000
UK	**-**	**(302)**	**83,615**	-	(423)	32,011
European Union	**133,703**	**(7,653)**	**(22,957)**	40,565	(3,297)	(2,613)
Other Europe	**-**	**(29,894)**	**(60,559)**	-	457	(28,918)
Oceania	**184,909**	**131,082**	**101,272**	113,538	10,221	102,817
	318,612	**93,233**	**101,371**	154,103	6,958	103,297
Less share of joint ventures turnover/operating profit	**(184,909)**	**(131,082)**	**-**	(113,538)	(10,221)	-
	133,703	**(37,849)**	**101,371**	40,565	(3,263)	103,297

Notes *(continued)*

3 Profit on ordinary activities before taxation

	14 month period ended 31 March 2004 £000	42 week period ended 31 January 2003 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration:		
Audit fees - Company	**10**	9
- Group	**179**	121
Non-audit fees - Company	**19**	16
- Group	**99**	-
Depreciation of fixed assets - owned	**1,365**	372
Depreciation of fixed assets - leased	**-**	2
Amortisation of intangible assets	**1,130**	412
Operating lease payments	**23,621**	9,677
Exchange differences	**(70)**	(702)
Write back of negative goodwill	**(1,796)**	-

4 Other interest receivable and similar income

	14 month period ended 31 March 2004	42 week period ended 31 January 2003 £000
Bank interest receivable	**295**	-
On group loans	**9,530**	-
Share of joint venture	**3,294**	1,219
Other	**2**	-
	13,121	1,219

5 Interest payable and similar charges

	14 month period ended 31 March 2004 £000	42 week period ended 31 January 2003 £000
Bank interest payable	**553**	-
On group loans	**3,296**	562
Share of joint venture	**1,808**	36
Foreign exchange losses	**2,073**	-
Other	**-**	1,036
	7,730	1,634

Notes *(continued)*

6 Remuneration of directors

The directors did not receive any remuneration during the period for services to the Company *(2003: nil)*.

7 Staff numbers and costs

	14 month period ended 31 March 2004	42 week period ended 31 January 2003
Flight crew	**130**	130
Cabin crew	**264**	266
Reservations sales and administration	**470**	477
	864	873

	14 month period ended 31 March 2004 £000	42 week period ended 31 January 2003 £000
Wages and salaries	**19,192**	6,416
Social security costs	**4,398**	1,310
Other pension costs	**10**	11
Other	**6**	-
	23,606	7,737

Notes *(continued)*

8 Taxation

Analysis of charge in period

	14 month period ended 31 March 2004	42 week period ended 31 January 2003
UK corporation tax		
Current tax on income for the period	**685**	930
Overseas tax		
Share of joint venture tax	**11,556**	7,925
Foreign tax	**451**	-
Total current tax	**12,692**	8,855
Deferred tax	-	-
Tax on profit on ordinary activities	**12,692**	8,855

Factors affecting the tax charge for the current period

The current tax charge for the period is higher than the standard rate of corporation tax in the UK (30%, 2003: 30%). The differences are explained below.

	14 month period ended 31 March 2004 £000	42 week period ended 31 January 2003 (restated – see note 1) £000
Current tax reconciliation		
Profit on ordinary activities before tax	**98,624**	6,543
Current tax at 30% (2002: 30%)	**29,587**	1,963
Effects of:		
Expenses not deductible for tax purposes	**7,849**	5,420
Non-taxable income	**(31,036)**	-
Higher tax rates on overseas earnings	**3**	11
Losses not utilised or recognised	**6,289**	1,633
Utilisation of brought-forward losses	-	(44)
Adjustment in respect of prior years	-	(128)
Total current tax charge (see above)	**12,692**	8,855

Notes *(continued)*

9 Intangible assets

Group	Negative Goodwill 2004 £000	Goodwill 2004 £000	Software licenses 2004 £000	Total 2004 £000
Cost				
At beginning of period	-	23,276	106	23,382
Additions (Note 26)	(1,796)	-	18	(1,778)
At end of period	(1,796)	23,276	124	21,604
Amortisation				
At beginning of period	-	388	26	414
(Credit)/charge for period	(1,796)	1,164	34	(598)
At end of period	(1,796)	1,552	60	(184)
Net book value				
At 31 March 2004	**-**	**21,724**	**64**	**21,788**
At 31 January 2003	-	22,888	80	22,968

Following a review of the useful economic life of the goodwill the directors consider an amortisation period of 20 years appropriate.

Notes *(continued)*

10 Tangible fixed assets

Group	Aircraft £000	Plant and machinery, fixtures and fittings £000	Leasehold land and buildings £000	Total £000
Cost				
At beginning of period	1,358	1,537	34	2,929
Additions	203	394	4	601
Disposals	-	(101)	-	(101)
Exchange differences	86	146	4	236
As at 31 January 2003	1,647	1,976	42	3,665
Depreciation				
At beginning of period	292	349	6	647
Charge for year	782	583	6	1,371
Disposals	-	(101)	-	(101)
Exchange differences	44	112	4	160
As at 31 January 2003	1,118	943	16	2,077
Net book value				
At 31 March 2004	**529**	**1,033**	**26**	**1,588**
At 31 January 2003	1,066	1,188	28	2,282

Included in the total cost of tangible assets is £nil (2003: £95,425) in respect of assets held under finance lease. Depreciation for the year in respect of these assets was £nil (2003: £18,954). Accumulated depreciation at 31 March 2004 in respect of these assets is £nil (2003: £94,771).

Notes *(continued)*

11 Fixed asset investments

Group	Interest in associate £000	Interest in joint venture £000	Total £000
Cost			
At beginning of period	-	95,390	95,390
Disposal	-	(43,340)	(43,340)
Reclassification	52,050	(52,050)	-
At end of period	52,050	-	52,050
Share of post acquisition reserves			
At beginning of period	-	7,427	7,427
Share of operating profit before goodwill amortisation	5,748	24,393	30,141
Amortisation of goodwill	(552)	(2,871)	(3,423)
Share of interest payable	(360)	(1,448)	(1,808)
Share of interest receivable	656	2,638	3,294
Executive share option charge	2,105	4,685	6,790
Share of tax	(2,303)	(9,253)	(11,556)
Return of capital	-	(17,710)	(17,710)
Foreign exchange	(1,150)	6,546	5,396
Effects of IPO: partial disposal and reclassification	45,078	(14,407)	30,671
At end of period	49,222	-	49,222
Net book value			
At 31 March 2004	**101,272**	-	**101,272**
At 31 January 2003	-	102,817	102,817

Group	Net assets in associate £000
Share of assets	151,912
Share of liabilities	(89,198)
Unamortised goodwill	38,558
Net book value at 31 March 2004	**101,272**

During the year the Group's holding in Virgin Blue Holdings Pty Limited was reduced from 46% to 25.1% as a result of a group reorganisation followed by a sale on the initial public offering for consideration of £117.6 million, plus £68.4 million representing the Group's share of the increased capital injection from third parties. Issue costs of £0.6 million were incurred realising a gain of £104.4 million after taking into account the disposal of the Group's share of assets, and unamortized goodwill, together totalling £80.2 million. The proceeds were received by a fellow subsidiary and remain outstanding as a debtor at the end of the period.

The company's ultimate parent undertaking also received £87.0 million from Patrick Corporation pursuant to the initial public offering as a result of the terms on which it sold 46% of Virgin Blue Holdings Pty in previous years.

Notes *(continued)*

11 Fixed asset investments *(continued)*

Company	Investment in subsidiaries £000	Total £000
Cost and net book value		
At beginning of period	34,441	34,441
Additions (Notes 25 and 26)	52,151	52,151
At 31 March 2004	**86,592**	**86,592**

The companies in which the Group and Company's interest at 31 March 2004 is more than 20% are as follows:

	Country of Registration	Principal Activity	Holding %	Direct/ indirect holding	No. of Shares	Type of share
Subsidiary undertakings						
Cricket SA	Switzerland	Investment holding	100	Direct	669,014	CHF 100 Ordinary
Virgin Express Holdings plc	England & Wales	Airline operation	100	Direct	50,000	£1 Deferred ordinary
Virgin Express Holdings plc	England & Wales	Airline operation	87.8	Direct	35,083,686	€0.01 Ordinary shares
Virgin Express Holdings plc	England & Wales	Airline operation	0.84	Direct	329,666	€0.0024789 American depositary receipts
Virgin Holdings SA	Switzerland	Investment holding	100	Direct	3,556,209	Class A Shares
Virgin Holdings SA	Switzerland	Investment holding	100	Direct	3,247	Class B Shares

The ordinary shares and the American depository receipts complete the 88.64% shareholding in Virgin Express Holdings plc

Associate:						
Virgin Blue Holdings Limited	Australia	Airline operation	25.1	Indirect	257,999,365	Australian ordinary

Notes *(continued)*

12 Stocks

	Group 31 March 2004 £000	Company 31 March 2004 £000	Group 31 January 2003 £000	Company 31 January 2003 £000
Finished goods and goods for resale	**213**	**-**	162	-

13 Debtors

	Group 31 March 2004 £000	Company 31 March 2004 £000	Group 31 January 2003 £000	Company 31 January 2003 £000
Trade debtors	**15,182**	**-**	26,554	-
Amounts owed by related undertakings	**148,844**	**92,051**	206	69,910
Other debtors	**4,776**	**4**	1,477	-
Prepayments and accrued income	**5,384**	**-**	4,809	-
	174,186	**92,055**	33,046	69,910

14 Cash at bank and in hand

Virgin Express Holdings plc, a subsidiary of Virgin Sky Investments Limited, cash at bank and in hand at 31 December 2003 includes £9,099,435 (2002: £7,887,838) which was pledged as security deposits for lessors, fuel vendors and airport services.

15 Creditors: amounts falling due within one year

	Group 31 March 2004 £000	*Company* 31 March 2004 £000	*Group* 31 January 2003 £000	*Company* 31 January 2003 £000
Trade creditors	**24,671**	**-**	31,150	-
Obligations under finance leases and hire purchase (note 22)	**-**	**-**	10	-
Amounts due to group undertakings	**87,433**	**75,984**	23,324	12
Other shareholder loans	**110**	**-**	-	-
Other taxes and social security	**5,212**	**-**	3,492	-
Corporation tax creditor	**2,066**	**1,615**	980	930
Other creditors	**1,313**	**-**	619	-
Accruals and deferred income	**10,537**	**29**	17,361	22
	131,342	**77,628**	76,936	964

Notes *(continued)*

16 Provisions for liabilities and charges

Group	Maintenance £000	Deferred Tax £000	Restructuring £000	Other £000	Total £000
At beginning of period	3,623	(60)	375	691	4,629
Utilised in period	(2,415)	-	(375)	(461)	(3,251)
Provided in period	1,289	-	-	-	1,289
Foreign exchange	206	-	-	(39)	167
At end of period	**2,703**	**(60)**	**-**	**191**	**2,834**

17 Called up share capital

	31 March 2004	31 January 2003 £
Authorised		
3,000 Ordinary shares of £1 each	**3,000**	3,000
Allotted, called up and fully paid		
1,501 Ordinary shares of £1 each	**1,501**	1,501

Notes *(continued)*

18 Share premium and reserves

Group	Share premium £000	Profit and loss account £000
At beginning of period	101,216	(9,319)
Retained profit for the period	-	85,782
Executive share option charge	-	6,790
Foreign exchange differences	-	(1,212)
At end of period	**101,216**	**82,041**
Company		
At beginning of period	101,216	2,169
Retained loss for the period	-	(2,368)
At end of period	**101,216**	**(199)**

19 Minority interests

	Group 2004 £000
At beginning of period	492
Share of profit	150
Dividends paid by subsidiaries to minority interest	(54)
Foreign exchange	6
At end of the period	**594**

Notes *(continued)*

20 Reconciliation of equity shareholders' funds

	Group 31 March 2004	**Company 31 March 2004**	Group 31 January 2003 (Restated – see note 1)	Company 31 January 2003
	£000	**£000**	£000	£000
Profit/(loss) for the financial period	**85,782**	**(2,368)**	(11,484)	2,169
Exchange difference on consolidation of foreign subsidiaries	**(1,212)**	**-**	(2,485)	-
Share issues	**-**	**-**	101,216	101,216
Called up share capital	**-**	**-**	2	2
Executive share option charge	**6,790**	**-**	4,650	-
Opening equity shareholders' funds	**91,899**	**103,387**	-	-
Closing equity shareholders' funds	**183,259**	**101,019**	91,899	103,387

21 Commitments

Group

The future net minimum lease payments to which the Group was committed at 31 March 2004 under finance lease obligations are as follows:

	31 March 2004	31 January 2003 Other
	£000	£000
Amounts payable		
In less than one year	**-**	10
In the second to fifth years inclusive	**-**	-
	-	10

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

	31 March 2004			31 January 2003		
	Land and buildings	**Aircraft and other**	**Total**	Land and buildings	Aircraft and other	Total
	£000	**£000**	**£000**	£000	£000	£000
Operating leases which expire:						
Within one year	**17**	**1,660**	**1,677**	258	461	719
In the second to fifth years inclusive	**513**	**5,482**	**5,995**	333	13,190	13,523
Over five years	**-**	**6,583**	**6,583**	-	8,129	8,129
	530	**13,725**	**14,255**	591	21,780	22,371

Notes *(continued)*

22 Reconciliation of operating loss to net cash flow from operating activities

	14 month period ended 31 March 2004 £000	42 week period ended 31 January 2003 £000
Operating loss	**(37,849)**	(3,263)
Amortisation of intangibles and impairments	**(598)**	412
Depreciation	**1,371**	374
Increase in stocks	**(51)**	(162)
Decrease/(increase) in debtors	**43,302**	(5,572)
Decrease/(increase) in current asset investments	**120**	(120)
(Decrease)/increase in creditors	**(17,714)**	3,495
(Decrease)/increase in provisions	**(1,795)**	4,629
Net cash outflow from operating activities	**(13,214)**	(207)

23 Analysis of cash flows

	14 month period ended 31 March 2004 £000	**42 week period ended 31 January 2003 £000**
Returns on investment and servicing of finance		
Interest element of finance lease rental payments	**-**	(6)
Interest payable	**(553)**	-
Interest receivable	**297**	-
	(256)	(6)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(601)**	(316)
Purchase of intangible fixed assets	**(18)**	-
	(619)	(316)
Acquisitions and disposals		
Cash acquired with subsidiary	**35**	14,863
	35	14,863
Financing		
Finance lease repaid	**(10)**	-
Loans issued	**20,539**	(1,582)
	20,529	(1,582)

Notes *(continued)*

24 Analysis of net debt

	At 31 January 2003 £000	Cash flow £000	Acquisitions £000	Other non-cash changes £000	Exchange movement £000	At 31 March 2004 £000
Cash:						
Cash	12,561	6,421	-	-	-	**18,982**
Overdraft	-	-	-	-	-	-
	12,561	6,421	-	-	-	**18,982**
Debt due within one year:						
Amounts due to related parties	(23,324)	(20,539)	(9,885)	(33,797)	534	**(87,011)**
Debt due after more than one year:						
Finance lease	(10)	10	-	-	-	-
Net debt at end of period	(10,773)	(14,108)	(9,885)	(33,797)	534	**(68,029)**

Notes *(continued)*

25 Purchase of subsidiary undertaking

On 28 May 2003 Virgin Sky Investments Limited bought Virgin Holdings SA from another group company. This was a non cash transaction.

	Book value	Fair value adjustment	Fair value
Net assets acquired	**£'000**	**£'000**	**£'000**
Debtors	24,639	14,959	39,598
Cash	35	-	35
Creditors	(9,885)	-	(9,885)
Total tangible net assets	14,789	14,959	29,748
Consideration			29,748
Satisfied by:			
Debt left outstanding on intercompany loan			29,748

The following adjustment was made to book values on acquisition:

a) A write up of £14,959,000 was made to debtors based on a valuation which reassessed the recoverability of the balance.

Notes *(continued)*

26 Purchase of subsidiary undertaking

On 27 June 2003 Virgin Express Holdings plc completed an open offer of new shares to its shareholders. Consequently, new shares were issued to Virgin Sky Investments Limited (32,518,686 shares) for consideration of £1 by way of capitalisation of the majority of the debt (£20.2 million) owed by Virgin Express Holdings plc to Virgin Sky Investments Limited and new shares were also issued to the public (2,589,439 shares). Accordingly, the Group's beneficial ownership of the shares in Virgin Express Holdings plc increased from 59.79% to 88.64%. In prior periods Virgin Express Holdings plc was loss making and there is no legal requirement for the minority interest to fund its share of the losses. No minority interest has therefore been recognised and Virgin Express Holdings plc has been treated as if it were owned 100% by Virgin Sky Investments Limited. In consequence, the minority's investment in the rights issue of £1,796,000 gave rise to £1,796,000 negative goodwill on consolidation.

27 Pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the period represents the contributions payable by the group to the funds and amounted to £10,000 (2003: £11,000). There were no outstanding prepaid contributions at either the beginning or the end of the period.

28 Post balance sheet events

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

On April 12, 2005, Virgin Express Holdings plc satisfied the final conditions precedent to the common ownership agreement signed on October 5, 2004 and VE Belgium was transferred to SN Air in consideration for an issue of 29.9% of the capital in SN Air.

On 18th February 2005 Virgin Sky Investments Limited acquired a new wholly owned subsidiary, Vexair Limited. On April 12, 2005 Vexair Limited entered into a conditional agreement with Virgin Express Holdings plc to buy its entire interest in SN Air for €54 million ("the Vexair Sale and Purchase Agreement"). This agreement is conditional on the passing of certain resolutions at an Extraordinary General Meeting of Virgin Express Holdings plc to be held on 9th May 2005. As part of this agreement, Vexair Limited will also assume the liabilities of Virgin Express Holdings plc in connection with the interest in SN Air, including warranty and indemnity liability pursuant to the common ownership agreement entered into with SN Air on October 5, 2004.

On 15th April 2005, the board of Virgin Express Holdings plc posted a circular to its shareholders in connection with a proposed members' voluntary liquidation whereby, subject to the necessary shareholder resolutions being passed at the EGM to be held on 9th May and completion of the Vexair Sale and Purchase Agreement, the debt due to Virgin Sky Investment Limited by Virgin Express Holdings plc will be repaid in full and the minority shareholders of Virgin Express Holdings plc will be paid a final distribution of €1 a share.

Notes *(continued)*

29 Contingent liabilities

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

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

Virgin Express in December 2001 filed a declaration of claims in the bankruptcy of Sabena for amounts due by Sabena under the wet lease / code share contracts in the pre-bankruptcy period, as well as an indemnity for early termination of the wet lease contracts following the bankruptcy (approximately €269 million). Sabena's trustees partially contested these claims and in addition introduced against Virgin Express a claim for handling charges (approximately €1.4 million), a punctuality claim (approximately US$7 million), and a claim for damages based on the alleged non-effectiveness and non-enforceability of the wet lease /code share contracts (approximately €102 million). SIC, as co-ordination center of Sabena prior to its bankruptcy, was called to intervene in the proceedings and was sued by Virgin Express to be held jointly and severally liable by Virgin Express.

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

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

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

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

Notes *(continued)*

30 Related party disclosures

At 31 March 2004 the Company's ultimate parent undertaking 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 are considered to give rise to related party disclosures under Financial Reporting Standard No. 8.

	31 March 2004			31 January 2003		
	Associate undertakings £000	**Related undertakings £000**	**Parent undertaking £000**	Joint venture undertakings	Related undertakings £000	Parent undertaking £000
Turnover	-	-	-	749	16	-
Administrative expenses	-	(622)		-	(11)	(42)
Interest payable	-	(3,296)	-	-	(562)	-
Interest receivable	-	9,530	-	-	-	-
Debtors	100	148,744	-	206	-	-
Creditors: less than one year	-	(87,314)	(119)	-	(23,311)	(13)

The parent undertaking with whom the Group transacted during the period was Virgin Group Investments Limited.

The fellow subsidiary undertakings with whom the Group transacted were Virgin Enterprises Limited, Barfair Limited, Virgin Investments SA, Virgin Group Finance LP, Virgin Atlantic Airways Limited, Virgin Management Limited, Virgin Holdings Limited (formerly Ivanco (No. 1) Limited), Virgin Retail Holdings Limited and Virgin Retail Investment Holdings Limited.

The associate undertaking (2003: joint venture) with which the Group transacted was Virgin Blue Holdings Pty Limited.

31 Ultimate parent company

The Company is a subsidiary undertaking of Virgin Group Investments Limited, a company incorporated in the British Virgin Islands.