

**Virgin Sky Investments Limited (formerly Virgin
Blue Investments Limited) and subsidiary
companies**

**Directors' report and consolidated
financial statements**

Registered number 4415765

**For the period from 12 April 2002 (date of
incorporation) to 31 January 2003**



Contents

Directors' report	1
Statement of directors' responsibilities	3
Report of the independent auditors, KPMG LLP, to the members of Virgin Sky Investments Limited	4
Consolidated profit and loss account	5
Consolidated statement of total recognised gains and losses	6
Consolidated balance sheet	7
Company balance sheet	8
Consolidated cash flow statement	9
Notes	10

Directors' report

The directors present their first annual report and the audited financial statements for the 42 week period ended 31 January 2003.

Principal activities

The Company was incorporated on 12 April 2002. The principal activity of the Company is that of an investment holding company in relation to its subsidiaries and other affiliated companies. On 30 October 2002 the Company changed its name from Virgin Blue Investments Limited to Virgin Sky Investments Limited.

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, tour operator and freight handling.

Business review

The results for the period are set out on page 5 of the financial statements and the loss for 42 week the period of £6,834,000 has been transferred to group reserves.

On the 3 May 2002, the company acquired an investment in Virgin Blue Holdings Limited for market consideration of £95.4m.

On the 8th October 2002, the Company acquired an investment in Virgin Express Holdings plc in a share for share transaction at market consideration of £5.8m from its parent Virgin Group Investments Limited.

Post balance sheet event

On 28th April 2003 Virgin Express Holdings plc issued new shares under a rights issue to which the Company took up its rights in full and underwrote the remainder of the share issue. As a result the Company increased its interest in Virgin Express Holdings plc to 87.8%.

On 25th May 2003 Virgin Retail Holdings Limited became the new parent company having acquired the shareholding from Virgin Group Investments Limited, the former parent.

On 10th September 2003, the two major shareholders of Virgin Blue, Virgin Group and Patrick Corporation reached an agreement regarding a revised shareholders agreement, including terms for the company's planned IPO. Under the terms of the new shareholders agreement, Patrick Corporation paid an amount of A\$240 million to Virgin Group, with no further consideration required in respect of its existing shareholding. This removed an "escalator" clause that was part of the previous shareholder agreement and required Patrick Corporation to pay a further consideration dependant on the performance and valuation of the company.

In 5th December 2003, Virgin Group and Patrick Corporation made an offering and placement of a number of shares in Virgin Blue on the Australian Stock Exchange. Virgin Group reduced its holding to 25.1% following the IPO; Patrick Corporation to 45%. The share issue was ten times over subscribed and the share price set valued the company at \$2.3 billion. Trading began on the Australian Stock Exchange on Monday 8th December 2003.

Proposed dividend

The directors do not recommend the payment of a dividend.

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:

SDG Registrars Limited (appointed 12 April 2002, resigned 12 April 2002)
F Dearie (appointed 12 April 2002, resigned 10 December 2002)
S O'Callaghan (appointed 12 April 2002, resigned 1 May 2002)
A L Snell (appointed 12 April 2002, resigned 1 May 2002)
A J Renouf (appointed 12 April 2002, alternates S G Basham, appointed 12 April 2002 and in his absence S O'Callaghan, appointed 12 April 2002)
N M Ritchie (appointed 12 April 2002, alternate F Dearie, appointed 12 April 2002)

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.

Directors' report *(continued)*

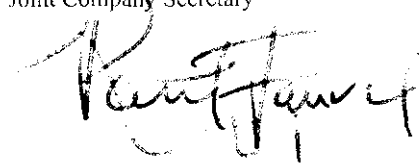
Auditors

The members of the Company have passed elective resolutions in accordance with Sections 366A, 252 and 386 of the Companies Act 1985 dispensing with the previous statutory requirement of holding annual general meetings, laying accounts before the Company in general meetings and 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

10th August 2004

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 28.

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 company 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 January 2003 and of its loss for the 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

13 August 2004

Consolidated profit and loss account
for the 42 week period ended 31 January 2003

	<i>Notes</i>	42 week period ended 31 January 2003 £000
Turnover		
Continuing operations		154,103
Less share of joint venture's turnover		(113,538)
Group turnover	<i>1,2</i>	40,565
Cost of sales		(21,026)
Gross profit		19,539
Distribution costs		(2,220)
Administrative expenses	<i>3</i>	(20,582)
Group operating loss		
Continuing operations	<i>2,3</i>	(3,263)
Share of operating profit of joint venture	<i>3,11</i>	14,871
Total operating profit		11,608
Other interest receivable and similar income	<i>4</i>	1,219
Interest payable and similar charges	<i>5</i>	(1,634)
Profit on ordinary activities before taxation	<i>2-8</i>	11,193
Tax on profit on ordinary activities	<i>8</i>	(8,855)
Profit on ordinary activities after taxation		2,338
Minority interest	<i>20</i>	(9,172)
Retained loss for the year		(6,834)

There were no recognised gains or losses in the year other than those shown above, which were derived from continuing operations.

The notes on pages 10 to 28 form part of these financial statements.

Consolidated statement of total recognised gains and losses
for the 42 week period ended 31 January 2003

	<i>Notes</i>	42 week period ended 31 January 2003 £000
Loss for the financial period		(6,834)
Exchange difference arising on consolidation of foreign subsidiaries	<i>19</i>	(2,485)
Total recognised losses relating to the period	<i>19</i>	(9,319)

The notes on pages 10 to 28 form part of these financial statements.

Consolidated balance sheet

at 31 January 2003

	Notes	31 January 2003 £000
Fixed assets		
Intangible assets	9	22,968
Tangible assets	10	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
		<hr/>
		102,817
		<hr/>
		128,067
Current assets		
Stocks	12	162
Debtors	13	33,046
Current investments		120
Cash at bank and in hand	14	12,561
		<hr/>
		45,889
Creditors: amounts falling due within one year	15	(53,869)
		<hr/>
Net current liabilities		(7,980)
		<hr/>
Total assets less current liabilities		120,087
Creditors: amounts falling due after more than one year	16	(23,067)
Provisions for liabilities and charges	17	(4,629)
		<hr/>
Net assets		92,391
		<hr/>
Capital and reserves		
Called up share capital	18	2
Share premium	19	101,216
Profit and loss account	19	(9,319)
		<hr/>
Equity shareholders' funds	21	91,899
		<hr/>
Minority interest	20	492
		<hr/>
		92,391
		<hr/>

The notes on pages 10 to 28 form part of these financial statements.

These financial statements were approved by the board of directors on 15th August 2004 and were signed on its behalf by:

Director

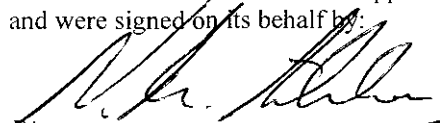


Company balance sheet
at 31 January 2003

	Notes	31 January 2003 £000
Fixed Assets		
Investments	11	34,441
Current assets		
Debtors	13	69,910
Creditors: amounts falling due within one year	15	(964)
Net current assets		68,946
Net assets		103,387
Capital and reserves		
Called up share capital	18	2
Share premium	19	101,216
Profit and loss account	19	2,169
Equity shareholders' funds	21	103,387

The notes on pages 10 to 28 form part of these financial statements.

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


 Director

10th August 2004

Consolidated cash flow statement
for the 42 week period ended 31 January 2003

	<i>Notes</i>	42 week period ended 31 January 2003 £000
Cash flow from operating activities	23	(207)
Returns on investments and servicing of finance	24	(6)
Taxation		(135)
Capital expenditure and financial investment	24	(316)
		<hr/>
Acquisitions and disposals	24	(664)
Equity dividends paid		14,863
		(56)
		<hr/>
Financing	24	14,143
		(1,582)
		<hr/>
Increase in cash in the period	25	12,561
		<hr/>

Reconciliation of net cash flow to movement in net debt
for the 42 week period ended 31 January 2003

		42 week period ended 31 January 2003 £000
Increase in cash in the period		12,561
Cash inflow from decrease in debt and lease financing	25	6
Loan advances	25	(1,582)
		<hr/>
Change in net debt resulting from cash flows		10,985
Loans and finance leases acquired with subsidiary	25,26	(16)
Debt due to related parties acquired with subsidiary	25,26	(20,211)
Non cash movement on loans from related parties	25	(610)
Foreign exchange		(921)
		<hr/>
Movement in net debt in the period		(10,773)
Net debt at the start of the period		-
		<hr/>
Net debt at the end of the period	25	(10,773)
		<hr/>

The notes on pages 10 to 28 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.

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 42 week period ended 31 January 2003. 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.

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).

Notes (continued)

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.

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.

Notes (continued)

2 Analysis of turnover, profit/(loss) 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

	42 week period ended 31 January 2003 Turnover £000	42 week period ended 31 January 2003 Group operating profit/(loss) £000	31 January 2003 Net assets/ (liabilities) £000
UK	-	(423)	180
European Union	40,565	(3,297)	(14,622)
Other Europe	-	457	4,016
Oceania	113,538	14,871	102,817
	<hr/>	<hr/>	<hr/>
	154,103	11,608	92,391
Less share of joint ventures revenue/operating profit	(113,538)	(14,871)	-
	<hr/>	<hr/>	<hr/>
	40,565	(3,263)	92,391
	<hr/>	<hr/>	<hr/>

3 Loss on ordinary activities before taxation

	42 week period ended 31 January 2003 £000
<i>Loss on ordinary activities before taxation is stated after charging:</i>	
Auditors' remuneration:	
Audit fees - Company	9
- Group	121
Non-audit fees	16
Depreciation of fixed assets - owned	372
Depreciation of fixed assets - leased	2
Amortisation of intangible assets	412
Operating leases - other	9,677
Exchange differences	(702)

Notes *(continued)*

4 Other interest receivable and similar income

	42 week period ended 31 January 2003 £000
Share of joint venture	1,219
	<u>1,219</u>

5 Interest payable and similar charges

	42 week period ended 31 January 2003 £000
On group loans	562
Share of joint venture	36
Other	1,036
	<u>1,634</u>

6 Remuneration of directors

The directors did not receive any remuneration during the period for services to the Company.

Notes (continued)

7 Staff numbers and costs

Following the acquisition of Virgin Express Holdings Plc the average number of persons employed by the Group analysed by category, was as follows:

	42 week period ended 31 January 2003
Flight crew	130
Cabin crew	266
Reservations sales and administration	477
	<hr/>
	873

Following the acquisition of Virgin Express Holdings Plc the aggregate payroll costs of these persons were as follows:

	42 week period ended 31 January 2003 £000
Wages and salaries	6,416
Social security costs	1,310
Other pension costs	11
	<hr/>
	7,737

Notes (continued)

8 Taxation

Analysis of charge in period

	42 week period ended 31 January 2003 £000
<i>UK corporation tax</i>	
Current tax on income for the period	930
<i>Overseas tax</i>	
Share of joint venture tax	7,925
Total current tax	8,855
Deferred tax	-
Tax on profit on ordinary activities	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%, 2001: 30%). The differences are explained below.

	42 week period ended 31 January 2003 £000
<i>Current tax reconciliation</i>	
Profit on ordinary activities before tax	11,193
Current tax at 30% (2002: 30%)	3,358
<i>Effects of:</i>	
Expenses not deductible for tax purposes	4,025
Higher tax rates on overseas earnings	11
Losses not utilised or recognised	1,633
Utilisation of brought-forward losses	(44)
Adjustment in respect of prior years	(128)
Total current tax charge (see above)	8,855

Notes (continued)

9 Intangible assets

	Goodwill 2003	Software licenses 2003	Total 2003
<i>Group</i>	£000	£000	£000
Cost			
Additions (Note 26)	23,276	99	23,375
Foreign exchange	-	7	7
	<hr/>	<hr/>	<hr/>
At end of period	23,276	106	23,382
	<hr/>	<hr/>	<hr/>
Amortisation			
Charged in period	388	24	412
Foreign exchange	-	2	2
	<hr/>	<hr/>	<hr/>
At end of period	388	26	414
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 January 2003	22,888	80	22,968
	<hr/>	<hr/>	<hr/>

Goodwill is currently amortised over 20 years.

10 Tangible fixed assets

	Aircraft	Plant and machinery, fixtures and fittings	Leasehold land and buildings	Total
<i>Group</i>	£000	£000	£000	£000
Cost				
At beginning of period	-	-	-	-
Additions	115	201	-	316
On acquisition of subsidiary	1,116	1,123	28	2,267
Exchange differences	127	213	6	346
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 January 2003	1,358	1,537	34	2,929
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At beginning of period	-	-	-	-
Charge for year	199	174	1	374
Exchange differences	93	175	5	273
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 January 2003	292	349	6	647
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 January 2003	1,066	1,188	28	2,282
	<hr/>	<hr/>	<hr/>	<hr/>

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

Notes (continued)

11 Fixed asset investments

<i>Group</i>	Interest in joint venture £000	Total £000
<i>Cost</i>		
At beginning of period	-	-
Additions	95,390	95,390
	<hr/>	<hr/>
At end of period	95,390	95,390
	<hr/>	<hr/>
<i>Share of post acquisition reserves</i>		
At beginning of period	-	-
Share of joint venture profit	18,795	18,795
Share of joint venture interest payable	(36)	(36)
Share of joint venture interest receivable	1,219	1,219
Share of joint venture tax	(7,925)	(7,925)
Amortisation of goodwill	(3,924)	(3,924)
Foreign exchange	(702)	(702)
	<hr/>	<hr/>
At end of period	7,427	7,427
	<hr/>	<hr/>
<i>Net book value</i>		
At 31 January 2003	102,817	102,817
	<hr/>	<hr/>

<i>Group</i>	Net assets in joint venture £000
Share of assets	92,712
Share of liabilities	(64,442)
Unamortised goodwill	74,547
	<hr/>
Net book value at 31 January 2003	102,817
	<hr/>

<i>Company</i>	Investment in joint venture £000	Investment in subsidiaries £000	Total £000
<i>Cost and net book value</i>			
At beginning of period	-	-	-
Additions	95,390	34,441	129,831
Disposals	(95,390)	-	(95,390)
	<hr/>	<hr/>	<hr/>
At 31 January 2003	-	34,441	34,441
	<hr/>	<hr/>	<hr/>

Notes (continued)

11 Fixed asset investments (continued)

The companies in which the Group and Company's interest at 31 January 2003 is more than 20% are as follows:

	Country of Registration	Principal Activity	Holding %	Direct/ indirect holding	No. of Shares	Type of share
<i>Subsidiary undertakings</i>						
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	47	Direct	2,565,000	€0.0024789 Ordinary shares
Virgin Express Holdings plc	England & Wales	Airline operation	6	Direct	329,666	€0.0024789 American depository receipts

The ordinary shares and the American depository receipts complete the 53% shareholding in Virgin Express Holdings plc

Joint venture:

Virgin Blue Holdings Limited	Australia	Airline operation	46	indirect	3,330,650	Australian ordinary
------------------------------	-----------	----------------------	----	----------	-----------	------------------------

On the 3 May 2002, the Company acquired an investment in Virgin Blue Holdings Limited for market consideration of £95.4m. Consideration was in the form of shares.

On the 6 May 2002, the Company acquired an investment of 668,014 shares in Cricket SA for market consideration of £28.6m. Consideration was in the form of shares.

On the 16 May 2002, the Company acquired a further investment of 1,000 in Cricket SA for market consideration of £42,915. Consideration was in the form of shares.

On the 8 October 2002, the Company acquired an investment in Virgin Express Holdings Limited for market consideration of £5.7m. Consideration was in the form of shares.

During the period the Company disposed of its holding in Virgin Blue Holdings Limited for market value £95.4m. No profit or loss arose from this disposal. The disposal was made to another subsidiary company, Cricket SA.

Notes (continued)

12 Stocks

	Group 31 January 2003 £000	Company 31 January 2003 £000
Finished goods and goods for resale	162	-

13 Debtors

	Group 31 January 2003 £000	Company 31 January 2003 £000
Trade debtors	26,554	-
Amounts owed by group undertakings	206	69,910
Other debtors	1,477	-
Prepayments and accrued income	4,809	-
	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 January 2003 £000	Company 31 January 2003 £000
Trade creditors	31,150	-
Obligations under finance leases and hire purchase (note 22)	10	-
Amounts due to group undertakings	257	12
Other taxes and social security	3,492	-
Corporation tax creditor	980	930
Other creditors	619	-
Accruals and deferred income	17,361	22
	53,869	964

Notes (continued)

16 Creditors: amounts falling due after more than one year

	Group 31 January 2003	Company 31 January 2003
	£000	£000
Amounts due to group undertakings	23,067	-

17 Provisions for liabilities and charges

Group	Maintenance £000	Deferred Tax £000	Restructuring £000	Other £000	Total £000
Acquisitions (note 26)	5,703	(60)	3,011	1,156	9,810
Utilised in period	(2,080)	-	(2,375)	(465)	(4,920)
Released in period	-	-	(261)	-	(261)
At end of period	3,623	(60)	375	691	4,629

18 Called up share capital

	31 January 2003 £
<i>Authorised</i>	
3,000 Ordinary shares of £1 each	3,000
<i>Allotted, called up and fully paid</i>	
1,501 Ordinary shares of £1 each	1,501

The company was incorporated on 12 April 2002 with an initial share capital of £1. On 3 May 2002 999 shares were issued at a premium of £95,484 per share. On 22 August 2002 1 share was issued at a premium of £42,913 per share. On 8 October 2002 500 shares were issued at a premium of £11,569 per share. Consideration was in the form of a share for shares.

Notes (continued)

19 Share premium and reserves

	Share premium	Profit and loss account
<i>Group</i>	£000	£000
At beginning of period	-	-
Share issues	101,216	-
Retained loss for the period	-	(6,834)
Foreign exchange differences	-	(2,485)
	<hr/>	<hr/>
At end of period	101,216	(9,319)
	<hr/>	<hr/>
<i>Company</i>		
At beginning of period	-	-
Retained profit for the period	-	2,169
Share issues	101,216	-
	<hr/>	<hr/>
At end of period	101,216	2,169
	<hr/>	<hr/>

20 Minority interests

	Group 2003 £000
On acquisition	(8,713)
Share of profit	9,172
Foreign exchange	33
	<hr/>
At end of the period	492
	<hr/>

Notes (continued)

21 Reconciliation of equity shareholders' funds

	Group 31 January 2003 £000	Company 31 January 2003 £000
Loss for the financial period	(6,834)	2,169
Exchange difference on consolidation of foreign subsidiaries	(2,485)	-
Share Issues	101,216	101,216
Called up share capital	2	2
Opening equity shareholders' funds	-	-
	<hr/>	<hr/>
Closing equity shareholders' funds	91,899	103,387
	<hr/>	<hr/>

22 Commitments

Group

The future net minimum lease payments to which the Group was committed at 31 January 2003 under finance lease obligations are as follows:

	31 January 2003 Other £000
Amounts payable	
In less than one year	10
In the second to fifth years inclusive	-
	<hr/>
	10
	<hr/>

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

	Land and buildings £000	31 January 2003 Aircraft and other £000	Total £000
Operating leases which expire:			
Within one year	258	461	719
In the second to fifth years inclusive	333	13,190	13,523
Over five years	-	8,129	8,129
	<hr/>	<hr/>	<hr/>
	591	21,780	22,371
	<hr/>	<hr/>	<hr/>

Notes (continued)

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

	42 week period ended 31 January 2003 £000
Operating profit	(3,263)
Amortisation of goodwill	412
Depreciation	374
Increase in stocks	(162)
Increase in debtors	(5,572)
Increase in current asset investments	(120)
Increase in creditors	3,495
Movement in provisions	4,629
Net cash outflow from operating activities	(207)

Notes (continued)

24 Analysis of cash flows

	42 week period ended 31 January 2003 £000
Returns on investment and servicing of finance	
Interest element of finance lease rental payments	(6)
Capital expenditure and financial investment	
Purchase of tangible fixed assets	(316)
	1,266
Acquisitions and disposals	
Cash acquired with subsidiary	14,863
Financing	
Loans issued	1,582

25 Analysis of net debt

	Cash flow	Acquisitions	Other non- cash changes	Exchange movement	At 31 January 2003 £000
	£000	£000	£000	£000	£000
Cash:					
Cash	12,561	-	-	-	12,561
Overdraft	-	-	-	-	-
	12,561	-	-	-	12,561
Debt due within one year:					
Amounts due to related parties	-	-	(257)	-	(257)
Debt due after more than one year:					
Amounts due to related parties	(1,582)	(20,211)	(353)	(921)	(23,067)
Finance lease	6	(16)	-	-	(10)
Net debt at end of period	10,985	(20,227)	(610)	(921)	(10,773)

Amounts due after more than one year were acquired with the acquisition of Virgin Express Holdings plc.

Notes (continued)

26 Purchase of subsidiary undertakings

On 8 October 2002 Virgin Sky Investments Limited bought Virgin Express Holdings plc from Virgin Group Investments Limited. This was a non cash transaction.

	Book value	Fair value adjustment	Fair value
	£'000	£'000	£'000
Net assets acquired			
Intangible assets	99	-	99
Tangible fixed assets	2,267	-	2,267
Stocks	243	-	243
Debtors	32,372	(4,898)	27,474
Cash	14,863	-	14,863
Creditors	(41,374)	-	(41,374)
Finance leases	(16)	-	(16)
Loans from group companies for more than one year	(20,211)	-	(20,211)
Provisions	(9,810)	261	(9,549)
	<hr/>	<hr/>	<hr/>
Total tangible net assets	(21,567)	(4,637)	(26,204)
Minority interest	8,713	-	8,713
	<hr/>	<hr/>	<hr/>
	(12,854)	(4,637)	(17,491)
	<hr/>	<hr/>	<hr/>
Goodwill (note 9)			23,276
			<hr/>
Consideration			5,785
			<hr/>
Satisfied by:			
			<hr/>
Shares issued as part of purchase price			5,785
			<hr/>

The following adjustments were made to book values on acquisition:

- (a) Provision was made against £4,898,000 of trade debtors of which recovery was considered to be uncertain
- (b) Restructuring provision of £261,000, which was not expected to be utilised, was released.

Notes (continued)**27 Purchase of joint venture undertaking**

On 3 May 2002 Virgin Sky Investments Limited acquired, as part of a joint venture, 46% of the ordinary share capital of Virgin Blue Holdings Limited. There were no fair value adjustments on acquisition. The fair value of the net assets acquired and the purchase consideration is given below:

	Book and fair value £000
Fixed assets	
Tangible assets	10,282
Intangible assets	17,972
Current assets	
Stock	561
Debtors	22,687
Current investments	7,395
Cash	63,924
Liabilities	
Creditors < 1 yr	(19,127)
Creditors > 1 yr	(49,630)
Provisions	(17,286)
Net assets acquired	36,778
Net assets acquired (46%)	16,918
Goodwill on acquisition	78,472
Consideration	95,390
Satisfied by:	
Shares issued as part of purchase price	95,390

Notes *(continued)*

28 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 £11,000. There were no outstanding prepaid contributions at either the beginning or the end of the period.

29 Post balance sheet events

On 28th April 2003 Virgin Express Holdings plc issued new shares under a rights issue to which the Company took up its rights in full and underwrote the remainder of the share issue. As a result the Company increased its interest in Virgin Express Holdings plc to 87.8%.

On 25th May 2003 Virgin Retail Holdings Limited became the new parent company having acquired the shareholding from Virgin Group Investments Limited, the former parent.

On 10th September 2003, the two major shareholders of Virgin Blue, Virgin Group and Patrick Corporation reached an agreement regarding a revised shareholders agreement, including terms for the company's planned IPO. Under the terms of the new shareholders agreement, Patrick Corporation paid an amount of A\$240 million to Virgin Group, with no further consideration required in respect of its existing shareholding. This removed an "escalator" clause that was part of the previous shareholder agreement and required Patrick Corporation to pay a further consideration dependant on the performance and valuation of the company.

In 5th December 2003, Virgin Group and Patrick Corporation made an offering and placement of a number of shares in Virgin Blue on the Australian Stock Exchange. Virgin Group reduced its holding to 25.1% following the IPO; Patrick Corporation to 45%. The share issue was ten times over subscribed and the share price set valued the company at \$2.3 billion. Trading began on the Australian Stock Exchange on Monday 8th December 2003.

30 Related party disclosures

At 31 January 2003 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.

		2003	
	Joint venture undertakings	Related undertakings	Parent undertaking
		£000	£000
Turnover	749	16	-
Administrative expenses	-	(11)	(42)
Interest payable	-	(562)	-
Debtors	206	-	-
Creditors: less than one year	-	(244)	(13)
Creditors: amounts due after more than one year	-	(23,067)	-

The parent undertaking with whom the Group transacted during the year was Virgin Group Investments Limited.
 The loan no longer attracts interest.

The fellow subsidiary undertakings with whom the Group transacted were Virgin Enterprises Limited and Barfair Limited.

The joint venture undertakings with whom the Group transacted were Virgin Blue Holdings Limited

31 Ultimate parent company

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