

Virgin Aviation Services Limited

Directors' report and financial statements

30 April 2002

Registered number: 1927016



Directors' report and financial statements

Contents

	Page
Directors' report	1 – 2
Statement of directors' responsibilities	3
Independent auditors' report to the members of Virgin Aviation Services Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7 – 13

Directors' report

The directors present their annual report and the audited financial statements of the Company for the year ended 30 April 2002.

Principal activities

The principal activity of the Company during the year was freight handling.

Directors and directors' interests

The directors of the Company during the year were as follows:

RCN Branson	(Chairman)
AJ Chambers	(Resigned 29 November 2001)
SR Bowker	(Resigned 29 November 2001)
FE Brandon-Farrow	
PD Griffiths	(Appointed 7 June 2001; resigned 29 November 2001)
TA Hwang	(Resigned 4 September 2001)
S Murphy	(Appointed 29 November 2001)
M Poole	
A Pusateri	(Resigned 29 November 2001)
SB Ridgway	
K Singh	
JH Southern	(Appointed 29 November 2001)
PT Tan	(Appointed 9 April 2002)
PWL Tan	(Appointed 4 September 2001; resigned 9 April 2002)
TO Thoeng	
VV Alfreds	(Alternate for TO Thoeng; resigned 13 May 2002)
FTE Khoo	(Alternate for TA Hwang; resigned 4 September 2001)
KH Leong	(Alternate for K Singh)

The following directors have been appointed since the end of the year:

R Segrán	(Alternate for TO Thoeng; appointed 13 May 2002)
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None of the directors who held office at the end of the year had any disclosable interest in the shares of the Company or other group companies.

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

Review of the business and results

The results for the year ended 30 April 2002 reflect another profitable year for the Company. Both the level of business and the year end financial position remain satisfactory given the exceptional events during the year, and the directors expect that the present level of activity will be sustained for the foreseeable future.

The terrorist events of 11 September 2001 and the resulting closure of US airspace had a severe effect on the US freight handling operation from which the Company derives management fee income. This operation made a loss this year and, as the management fee is directly proportional to the result of this operation, has resulted in a charge for the year.

The results for the year are set out on page 5 of the financial statements.

Directors' report *(continued)*

Dividends

An interim dividend of £9,000,000 (2001: £1,500,000) was declared and paid during the year. The directors do not recommend the payment of a final dividend for the year (2001: £nil).

European Monetary Union

Management have reviewed and continue to monitor the impact of the Euro to ensure the business responds to the risks and opportunities that this presents.

Auditors

The auditors for the year ended 30 April 2001, KPMG, have transferred their audit practice to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors of the Company on 30 May 2002 and the directors thereupon appointed KPMG LLP to replace them.

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 re-appointing auditors annually. This last resolution will lead to the continuing appointment of KPMG LLP as auditors of the Company until further notice.

By order of the Board



IMJ de Sousa
Company Secretary

120 Campden Hill Road
London
W8 7AR

11 October 2002

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 of the profit or loss of the Company 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 policies 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 Company will continue in business.

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

The directors, having prepared the financial statements, note that the independent auditors are required by the Companies Act 1985 to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.



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United Kingdom

Independent auditors' report to the members of Virgin Aviation Services Limited

We have audited the financial statements on pages 5 to 13.

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 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 as at 30 April 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KpmG LLP

11 October 2002

KPMG LLP
Chartered Accountants
Registered Auditor

Profit and loss account

for the year ended 30 April 2002

	Note	Year ended 30 April 2002 £	Year ended 30 April 2001 £
Turnover	2	(65,007)	1,569,017
Gross (loss)/profit		(65,007)	1,569,017
Administrative expenses		(149,049)	(13,348)
Operating (loss)/profit		(214,056)	1,555,669
Income from shares in joint venture		500,000	500,000
Interest receivable and similar income	5	843,679	1,105,812
Profit on ordinary activities before taxation	6	1,129,623	3,161,481
Tax on profit on ordinary activities	7	1,297,451	(798,000)
Profit for the financial year		2,427,074	2,363,481
Dividends paid and proposed	8	(9,000,000)	(1,500,000)
Retained (loss)/profit for the financial year	13	(6,572,926)	863,481

There were no recognised gains or losses in the year other than the profit for the year. The profit for the year arises from continuing activities.

The notes on pages 7 to 13 form part of these financial statements.

Balance sheet

at 30 April 2002

	Note	30 April 2002		30 April 2001	
		£	£	£	£
Fixed assets					
Investments	9		1,000,000		1,000,000
Current assets					
Debtors	10	13,223,957		21,146,664	
Creditors: amounts falling due within one year	11	(3,111,939)		(4,461,720)	
Net current assets			10,112,018		16,684,944
Total assets less current liabilities			11,112,018		17,684,944
Net assets			11,112,018		17,684,944
Capital and reserves					
Called up share capital	12		100		100
Profit and loss account	13		11,111,918		17,684,844
Equity shareholders' funds	14		11,112,018		17,684,944

These financial statements were approved by the Board of Directors on 11 October 2002 and were signed on its behalf by:



S B Ridgway
Director

The notes on pages 7 to 13 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with matters which are considered material in relation to the Company's financial statements for the year under review:

Basis of preparation

The financial statements have been prepared under the historical cost convention, and on a going concern basis, in accordance with applicable accounting standards.

Under Financial Reporting Standard 1 (Revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Virgin Atlantic Limited. The Company's cash flows are included within the consolidated cash flow statement of that company.

Under Section 228(1) of the Companies Act 1985, the Company is exempt from the requirement to prepare and deliver consolidated accounts on the grounds that it is a wholly owned subsidiary of Virgin Atlantic Limited, a company registered in England and Wales (see note 18). Accordingly these accounts present information about the Company as an individual undertaking.

Changes in accounting policy and presentation

During the year the Company implemented the following Financial Reporting Standards:

- Financial Reporting Standard 18 "Accounting Policies" has been complied with in the preparation of these accounts but has not led to any changes in accounting policy.
- Financial Reporting Standard 19 "Deferred Tax" has been adopted in the preparation of these accounts. The accounting policy has been changed from partial provision to full provision in order to comply with Financial Reporting Standard. This has resulted in no change in the reported tax charge or liability in prior or current periods.

Turnover

Turnover represents management fees derived from the provision of freight handling and management services.

Administrative expenses

Administrative expenses comprise overhead expenses together with marketing and promotional costs.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Revenues and costs and the results of foreign operations are translated at the average rate for the year. Gains or losses on translation are included in the profit and loss account.

Deferred taxation

Full provision is made for all timing differences which have arisen but not reversed at the balance sheet date, at the rates of corporation tax which are expected to apply when the additional tax is estimated to be payable.

Notes (continued)

2 Analysis of turnover

	Year ended 30 April 2002 £	Year ended 30 April 2001 £
By activity:		
Handling management fees	(65,007)	1,569,017
	<hr/>	<hr/>
	Year ended 30 April 2002 £	Year ended 30 April 2001 £
By source of geographical market:		
United Kingdom	100,000	100,000
United States of America	(165,007)	1,469,017
	<hr/>	<hr/>
	(65,007)	1,569,017
	<hr/>	<hr/>

The geographical analysis of turnover by source is derived by allocating revenue to the area in which the sale is made.

The terrorist events of 11 September 2001 and the resulting closure of US airspace had a severe effect on the US freight handling operation from which the Company derives management fee income. This operation made a loss this year and, as the management fee is directly proportional to the result of this operation, has resulted in a charge for the year.

3 Staff numbers and costs

The Company had no employees during the year (2001: nil).

4 Remuneration of directors

	Year ended 30 April 2002 £	Year ended 30 April 2001 £
Directors' emoluments	69,121	343,240
Company pension contributions to money purchase schemes	1,546	18,507
	<hr/>	<hr/>
	70,667	361,747
	<hr/>	<hr/>

The aggregate emoluments of the highest paid director were £69,121 (2001: £203,708). Company pension contributions to money purchase schemes on his behalf were £1,546 (2001: £12,560). This remuneration was paid by a fellow subsidiary.

Notes (continued)

4 Remuneration of directors (continued)

	Number of directors	
	Year ended 30 April 2002	Year ended 30 April 2001
<i>Retirement benefits are accruing to the following number of directors under:</i>		
Money purchase scheme	1	2

5 Interest receivable and similar income

	Year ended 30 April 2002 £	Year ended 30 April 2001 £
Interest receivable from group undertaking	843,679	1,105,812

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	Year ended 30 April 2002 £	Year ended 30 April 2001 £
Auditors' remuneration – audit	9,000	9,000
- other services	200,000	-
Exchange gains	(70,584)	-

7 Tax on profit on ordinary activities

	Year ended 30 April 2002 £	Year ended 30 April 2001 £
UK corporation tax at 30% (2001: 30%):		
In respect of the prior year	(1,492,000)	-
Amounts payable in respect of group relief at 30% (2001: 30%)	194,549	798,000
Total current tax	(1,297,451)	798,000

Group relief payments will be received or paid where losses are surrendered to or from other group companies.

Adoption of Financial Reporting Standard 19 has required a change in the method of accounting for deferred tax. However, this has not resulted in any change to the comparative figure for tax on profit on ordinary activities in 2001.

Notes (continued)

7 Tax on profit on ordinary activities (continued)

The standard rate of UK corporation tax for the year is 30%. The actual charges for the current and previous years are lower than the standard rate for the reasons set out in the following reconciliation:

	Year ended 30 April 2002 £	Year ended 30 April 2001 £
Profit on ordinary activities before taxation	1,129,623	3,161,481
Tax at the standard rate at 30% (2001: 30%)	338,887	948,444
Factors affecting the tax charge for the year:		
Expenses not deductible for tax purposes	5,662	-
Adjustments to tax charge in respect of prior years	(1,492,000)	(150,444)
UK dividends received	(150,000)	-
Total current tax	(1,297,451)	798,000

8 Dividends

	Year ended 30 April 2002 £	Year ended 30 April 2001 £
Dividends on equity shares:		
Ordinary – interim £90,000 (2001: £15,000) per share	9,000,000	1,500,000

9 Fixed asset investments

	Interest in joint venture £
Cost and net book value	
At 30 April 2001 and 30 April 2002	1,000,000

The investment represents the Company's interest at the year end, as follows:

	Country of registration or incorporation	Principal activity	Class and percentage of shares held
Joint venture (see note 16)			
Plane Handling Limited (Accounting period ending 30 September)	England and Wales	Cargo handling	Ordinary 50%

The principal activity of Plane Handling Limited is that of handling cargo.

Notes (continued)

10 Debtors

	30 April 2002 £	30 April 2001 £
Amounts owed by parent and fellow subsidiary undertakings	12,808,174	20,980,881
Other debtors	107,450	107,450
Prepayments and accrued income	308,333	58,333
	<hr/> 13,223,957 <hr/>	<hr/> 21,146,664 <hr/>

All amounts fall due within one year.

11 Creditors: amounts falling due within one year

	30 April 2002 £	30 April 2001 £
Amounts owed to parent and fellow subsidiary undertakings	165,007	229,339
Corporation tax	877,575	2,369,575
Group relief payable	2,004,022	1,809,473
Accruals and deferred income	65,335	53,333
	<hr/> 3,111,939 <hr/>	<hr/> 4,461,720 <hr/>

12 Share capital

	30 April 2002 £	30 April 2001 £
Authorised:		
100 ordinary shares of £1 each	100	100
	<hr/>	<hr/>
Allotted, called up and fully paid:		
100 ordinary shares of £1 each	100	100
	<hr/>	<hr/>

13 Reserves

	Profit and loss account £
At 1 May 2001	17,684,844
Retained loss for the year	(6,572,926)
	<hr/>
At 30 April 2002	11,111,918 <hr/>

Notes (continued)

14 Reconciliation of movement in shareholders' funds

	30 April 2002 £	30 April 2001 £
Profit for the financial year	2,427,074	2,363,481
Dividends paid	(9,000,000)	(1,500,000)
Net (deduction)/addition to shareholders' funds	(6,572,926)	863,481
Opening shareholders' funds	17,684,944	16,821,463
Closing shareholders' funds	11,112,018	17,684,944

15 Contingent liabilities

The Company is party to a group letter of set-off covering certain of its bank accounts and is a guarantor under certain financing arrangements.

16 Joint venture

The Company's share of its joint venture's retained profit and capital and reserves is as follows:

	30 April 2002 £	30 April 2001 £
Retained profit for the year	3,158	182,846
Capital and reserves	3,950,633	3,947,475

The joint venture (as detailed in note 9) has an accounting reference date of 30 September. Accordingly, the information covering the period October 2001 to April 2002 which has been included in the Company's financial statements for this joint venture is based upon the management accounts of the joint venture.

Notes (continued)

17 Related party transactions

As at 30 April 2002, the Company's ultimate parent company was Virgin Group Investments Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Investments Limited. The principal beneficiaries of those trusts are Sir RCN Branson and 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 8.

The Company being a wholly owned subsidiary undertaking of Virgin Atlantic Limited, has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions with entities which form part of the group or investees of the group qualifying as related parties. These transactions have been disclosed in the consolidated financial statements of the intermediate holding company, Virgin Atlantic Limited which are publicly available (see note 18).

There are no other material transactions and balances by the Company with related entities which are required to be disclosed by Financial Reporting Standard 8.

18 Ultimate holding company

The ultimate holding company at 30 April 2002 was Virgin Group Investments Limited, a company registered in The British Virgin Islands.

As at 30 April 2002, Ivanco (No.1) Limited, a company registered in England and Wales, is the parent undertaking of the largest group of which the Company is a member and for which consolidated financial statements are drawn up. The smallest group of which the Company is a member and for which consolidated financial statements have been drawn up is Virgin Travel Group Limited, a company registered in England and Wales. Copies of the financial statements for both of these companies, together with those for Virgin Atlantic Limited, may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff CF4 3UZ.