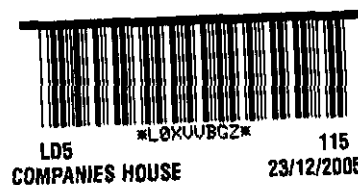


# **Reynard Aviation Limited**

## **Directors' report and financial statements**

**28 February 2005**

Registered number: 3462640



# Reynard Aviation Limited

## Directors' report and financial statements

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# Reynard Aviation Limited

## Directors' report

The directors present their annual report and the audited financial statements of the Company for the year ended 28 February 2005. Comparative amounts are stated for the 10 months ended 29 February 2004.

## Principal activity

The principal activities of the Company are that of the design, development and manufacture of aircraft seating products.

## Directors

The directors who served during the year were as follows:

Dr A J Reynard	(Chairman)
P Owens	
Sir R C N Branson	
F E Brandon-Farrow	
I M J de Sousa	
S T M Murphy	
M Poole	
S B Ridgway	
R Segrán	
M Sirisena	
J H Southern	
K W Yap	
J S L Koh	(alternate for M Sirisena)
T O Thoeng	(alternate for K W Yap)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company at 28 February 2005.

# Reynard Aviation Limited

## Directors' report *(continued)*

### Review of business and results

Both the level of business and the year end financial position are satisfactory. The directors expect that the present level of activity will be maintained. The results for the year are set out on page 5 of the financial statements.

### Dividends

The directors do not recommend the payment of a dividend *(2004: £nil)*.

### 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 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



**I M J de Sousa**  
*Company Secretary*

120 Campden Hill Road  
London  
W8 7AR

21 December 2005

# **Reynard Aviation Limited**

## **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial period which gives 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 standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 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.



8 Salisbury Square  
London  
EC4Y 8BB  
United Kingdom

## **Report of the independent auditors to the members of Reynard Aviation Limited**

We have audited the financial statements on pages 5 to 16.

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 auditors' 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 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 the Company's affairs as at 28 February 2005 and of its loss for year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG LLP*

**KPMG LLP**

*Chartered Accountants  
Registered Auditor*

*23 December* 2005

# Reynard Aviation Limited

## Profit and loss account

for the year ended 28 February 2005

		Year ended 28 February 2005	10 months ended 29 February 2004
		£	£
	<i>Note</i>		
Turnover	2	620,373	1,040,186
Cost of sales		(129,293)	(493,303)
<b>Gross profit</b>		<b>491,080</b>	<b>546,883</b>
Administrative expenses		(589,644)	(503,215)
<b>Operating (loss) / profit</b>		<b>(98,564)</b>	<b>43,668</b>
Other interest receivable and similar income	5	6,339	3,524
Interest payable and similar charges	6	(421,909)	(284,247)
<b>Loss on ordinary activities before taxation</b>	7	<b>(514,134)</b>	<b>(237,055)</b>
Tax on loss on ordinary activities	8	174,797	70,461
<b>Loss for the financial period</b>		<b>(339,337)</b>	<b>(166,594)</b>
Appropriation for the payment of preference share dividends	9	(541,520)	(541,520)
<b>Retained loss for the financial year</b>		<b>(880,857)</b>	<b>(708,114)</b>
Retained loss brought forward		(9,540,383)	(9,373,789)
Preference share appropriation	9	541,520	541,520
<b>Retained loss carried forward</b>		<b>(9,879,720)</b>	<b>(9,540,383)</b>

The loss for the year arises from continuing activities.

The notes on pages 7 to 16 form part of these financial statements.

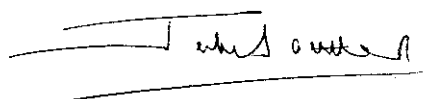
# Reynard Aviation Limited

## Balance sheet

at 28 February 2005

	Note	28 February 2005		29 February 2004	
		£	£	£	£
<b>Fixed assets</b>					
Tangible assets	10		25,995		41,392
<b>Current assets</b>					
Stock	11	396,709		390,644	
Debtors	12	4,645,793		4,446,409	
Cash at bank and in hand		458,912		641,795	
		<u>5,501,414</u>		<u>5,478,848</u>	
<b>Creditors: amounts falling due within one year</b>	13	<u>(7,407,939)</u>		<u>(6,825,174)</u>	
<b>Net current liabilities</b>			(1,906,525)		(1,346,326)
<b>Total assets less current liabilities</b>			<u>(1,880,530)</u>		<u>(1,304,934)</u>
<b>Provision for liabilities and charges</b>	14		(261,574)		(497,833)
<b>Net liabilities</b>			<u>(2,142,104)</u>		<u>(1,802,767)</u>
<b>Capital and reserves</b>					
Called up share capital	16		7,737,616		7,737,616
Profit and loss account			(9,879,720)		(9,540,383)
<b>Shareholders' deficit</b>					
Equity	17	(13,317,934)		(12,437,077)	
Non-equity	17	11,175,830		10,634,310	
<b>Shareholders' deficit</b>			<u>(2,142,104)</u>		<u>(1,802,767)</u>

These financial statements were approved by the Board of Directors on 21 December 2005 and were signed on its behalf by:



**J H Southern**  
Director

The notes on pages 7 to 16 form part of these financial statements.



# Reynard Aviation Limited

## Notes

*(forming part of the financial statements)*

### 1. Principal accounting policies

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

#### ***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. This policy has been applied consistently for the period under review. Virgin Travel Group Limited has undertaken to provide such support as is necessary to maintain the Company as a going concern for the foreseeable future, whilst the Company remains a subsidiary of Virgin Travel Group Limited.

Under Financial Reporting Standard 1 (Revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that more than 90% of the voting share capital is owned by its parent undertaking, Virgin Atlantic Limited. The Company's cash flows are included within the consolidated cash flow statements of that company.

#### ***Administrative expenses***

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

#### ***Depreciation***

Depreciation is provided at 25% of cost to write off the cost of tangible fixed assets over their anticipated useful lives, or periods of the underlying finance leases if shorter.

#### ***Lease capitalisation***

When an asset is acquired by a leasing arrangement which give rights approximating to ownership ("finance lease"), the asset is capitalised at an amount representing the outright purchase price of such an asset and included in tangible fixed assets. Depreciation is provided at rates designed to write off this cost less residual value in equal annual amounts over the shorter of the period of the lease or the anticipated useful life of the asset. The capital element of future rentals is treated as a liability and the interest element is charged to the profit and loss account over the period of the lease in proportion to the balance outstanding.

All other leases are accounted for as "operating leases", whereby the rental charges are charged to the profit and loss account on a straight line basis, and provision is made over the minimum term of the lease for any charges payable on termination.

# Reynard Aviation Limited

## Notes *(continued)*

### 1. Principal accounting policies *(continued)*

#### ***Development expenditure***

Development expenditure is charged to the profit and loss account as it is incurred, and is included in cost of sales.

#### ***Stocks***

Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

#### ***Warranty provision***

The warranty provision is based on a proportion of the turnover relating to new seat sales for the year, and is reviewed regularly against expenditure incurred.

#### ***Deferred taxation***

The credit for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting in respect of all timing differences between treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required for Financial Reporting Standard 19.

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

#### ***Pension costs***

The Company contributes to employees' personal pension arrangements. The amount charged in the profit and loss account represents the contributions payable to the schemes by the Company in respect of the accounting period.

#### ***Translation of foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling at the end of the accounting period or where applicable at a hedged rate.

# Reynard Aviation Limited

## Notes (continued)

### 2. Turnover

Turnover represents the amounts, excluding value added tax, attributable to the principal activities of the Company, and arose wholly within the United Kingdom.

### 3. Staff numbers and costs

The average number of persons employed by the Company, including directors, analysed by category was as follows:

	Year ended 28 February 2005	10 months ended 29 February 2004
Management and administration	6	6
Sales and marketing	1	1
Design and production	5	5
	<hr/>	<hr/>
	12	12
	<hr/>	<hr/>

The aggregate payroll costs (including directors) of these persons were as follows:

	Year ended 28 February 2005 £	10 months ended 29 February 2004 £
Wages and salaries	376,342	320,067
Social security costs	41,502	35,530
Pension costs	4,376	3,235
	<hr/>	<hr/>
	422,220	358,832
	<hr/>	<hr/>

### 4. Emoluments of the directors

The emoluments of the directors of the Company were:

	Year ended 28 February 2005 £	10 months ended 29 February 2004 £
Directors' emoluments	113,300	105,050
	<hr/>	<hr/>

No retirement benefits are accruing to directors as a result of their employment by the Company.

# Reynard Aviation Limited

## Notes (continued)

### 5. Other interest receivable and similar income

	Year ended 28 February 2005 £	10 months ended 29 February 2004 £
On deposits	6,339	3,524

### 6. Interest payable and similar charges

	Year ended 28 February 2005 £	10 months ended 29 February 2004 £
On amounts owed to group undertaking	421,909	284,247

### 7. Loss on ordinary activities before taxation

*The loss on ordinary activities before taxation is stated after charging / (crediting) the following:*

	Year ended 28 February 2005 £	10 months ended 29 February 2004 £
Depreciation	15,284	16,623
Rentals under operating leases:		
Land and buildings	105,113	105,113
Auditors' remuneration for audit services	12,000	10,000
Exchange loss / (gain)	1,154	(69)

# Reynard Aviation Limited

## Notes (continued)

### 8. Tax on loss on ordinary activities

	Year ended 28 February 2005 £	10 months ended 29 February 2004 £
<b>UK corporation tax at 30% (2004: 30%):</b>		
Group relief receivable in respect of current year	(169,668)	(65,475)
<b>Total current tax</b>	<b>(169,668)</b>	<b>(65,475)</b>
Deferred taxation	15,428	(4,986)
Adjustments in respect of prior years	(20,557)	-
	<b>(174,797)</b>	<b>(70,461)</b>

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

The standard rate of UK corporation tax for the year is 30% (2004: 30%). The actual tax charge for the current year differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 28 February 2005 £	10 months ended 29 February 2004 £
Loss on ordinary activities before taxation	(514,134)	(237,055)
Tax at the standard rate (at 30%)	(154,240)	(71,117)
<b>Factors affecting the charge for the year:</b>		
Accelerated capital allowances	(15,428)	4,986
Expenses not deductible for tax purposes	-	656
<b>Total current tax</b>	<b>(169,668)</b>	<b>(65,475)</b>

### 9. Dividends and appropriations

	Year ended 28 February 2005 £	10 months ended 29 February 2004 £
<b>Preference share appropriations:</b>		
7% cumulative redeemable preference shares	541,520	541,520

In accordance with the provisions of Financial Reporting Standard 4, the Company has appropriated through the profit and loss account preference share dividends which relate to the Company's 7% cumulative redeemable preference shares. However, as the Company does not have sufficient distributable reserves in order to pay such preference share dividends, these dividends have been credited back within the profit and loss account reserve.

# Reynard Aviation Limited

## Notes (continued)

### 10. Tangible fixed assets

	Fixtures and fittings £	Plant and machinery £	Motor Vehicles £	Total £
<b>Cost</b>				
At 1 March 2004	141,160	500,851	20,525	662,536
Additions	-	3,631	-	3,631
Disposals	-	(4,180)	-	(4,180)
<b>At 28 February 2005</b>	<b>141,160</b>	<b>500,302</b>	<b>20,525</b>	<b>661,987</b>
<b>Depreciation</b>				
At 1 March 2004	138,780	461,839	20,525	621,144
Charge for the year	2,380	12,904	-	15,284
Disposals	-	(436)	-	(436)
<b>At 28 February 2005</b>	<b>141,160</b>	<b>474,307</b>	<b>20,525</b>	<b>635,992</b>
<b>Net book value</b>				
<b>At 28 February 2005</b>	<b>-</b>	<b>25,995</b>	<b>-</b>	<b>25,995</b>
At 29 February 2004	2,380	39,012	-	41,392

### 11. Stocks

	28 February 2005 £	29 February 2004 £
Raw materials and consumables	396,709	390,644

### 12. Debtors: amounts falling due within one year

	28 February 2005 £	29 February 2004 £
Amounts owed by group undertaking	251,747	237,090
Other debtors	2,589	10,290
Group relief receivable	4,261,054	4,091,386
Prepayments and accrued income	65,550	47,920
Deferred tax asset (note 15)	64,853	59,723
	<b>4,645,793</b>	<b>4,446,409</b>

The deferred tax asset is recoverable after more than one year.

# Reynard Aviation Limited

## Notes (continued)

### 13. Creditors: amounts falling due within one year

	28 February 2005 £	29 February 2004 £
Trade creditors	71,502	23,804
Amounts owed to group undertaking	7,290,436	6,776,663
Other taxes and social security	8,248	7,019
Accruals and deferred income	37,753	17,688
	<u>7,407,939</u>	<u>6,825,174</u>

### 14. Provisions for liabilities and charges

	Warranty provision £
Balance at 1 March 2004	(497,833)
Movement during the year	236,259
<b>Balance at 28 February 2005</b>	<b><u>(261,574)</u></b>

### 15. Deferred taxation

*The elements of deferred tax are as follows:*

	28 February 2005 £	29 February 2004 £
Accelerated capital allowances	<u>64,853</u>	<u>59,723</u>

The deferred tax asset is included within debtors (see note 12).

# Reynard Aviation Limited

## Notes (continued)

### 16. Share capital

	28 February 2005 £	29 February 2004 £
<b>Authorised:</b>		
200,000 ordinary shares of 1p each	2,000	2,000
200,000 preference shares of £50 each	10,000,000	10,000,000
	<u>10,002,000</u>	<u>10,002,000</u>
<b>Issued, called up and fully paid:</b>		
161,560 ordinary shares of 1p each	1,616	1,616
154,720 preference shares of £50 each	7,736,000	7,736,000
	<u>7,737,616</u>	<u>7,737,616</u>

The preference shares are non-voting 7% cumulative redeemable preference shares, which rank before the ordinary shares in the event that the Company is wound up. The preference shares may be redeemed in whole or in part at the option of the Company upon giving notice of one month to the holders. They may also be redeemed at the shareholders' option on provision of notice of one month, provided that in the opinion of the directors there is no reason why the Company should not redeem the shares. The shares are to be redeemed at their nominal value.

### 17. Reconciliation of movements in shareholders' (deficit) / funds

	Equity shareholders' deficit £	Non-equity shareholders' funds £	Total shareholders' deficit £	Year ended 29 February 2004 £
Loss for the financial year	(339,337)	-	(339,337)	(166,594)
Preference share appropriations (note 9)	(541,520)	541,520	-	-
Net movement in shareholders' (deficit) / funds	<u>(880,857)</u>	<u>541,520</u>	<u>(339,337)</u>	<u>(166,594)</u>
Opening shareholders' (deficit) / funds	(12,437,077)	10,634,310	(1,802,767)	(1,636,173)
Closing shareholders' (deficit) / funds	<u>(13,317,934)</u>	<u>11,175,830</u>	<u>(2,142,104)</u>	<u>(1,802,767)</u>



# Reynard Aviation Limited

## Notes (continued)

### 18. Leasing commitments

As at 28 February 2005 the Company had annual commitments under non-cancellable operating leases as follows:

	28 February 2005 £	29 February 2004 £
<i>Operating leases on land and buildings which expire within:</i>		
One year	105,113	-
Second to fifth year inclusive	-	105,113
	<hr/>	<hr/>

### 19. Related party transactions

At 28 February 2005, 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 R C N 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 has a trademark license from Reynard Motorsport Limited for the use of the Reynard name and logo. The license is without term limit, royalty free, and worldwide, for use in connection with design, development, manufacture, repair, overhaul and sale of aircraft seats and related ancillary equipment.

The Company being a 92.4% subsidiary undertaking of the group headed by 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 Virgin Atlantic Limited, which are publicly available (see note 20).

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.

# Reynard Aviation Limited

## **Notes** *(continued)*

### **20. Ultimate holding company**

As at 28 February 2005, the ultimate holding company is Virgin Group Investments Limited, a company registered in the British Virgin Islands.

As at 28 February 2005, the largest group in which the results of the Company are consolidated is that headed by Virgin Holdings Limited, formerly Ivanco (No.1) Limited, and the smallest group in which the results of the Company are consolidated is that headed by Virgin Atlantic Limited. Both companies are registered in England and Wales. Copies of the financial statements for Virgin Holdings Limited and Virgin Atlantic Limited may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.