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Bug Leasing Limited

Directors' report and financial statements

28 February 2009

Incorporated in Jersey

Registered number: 93498

Directors' report and financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 28 February 2009. Comparative amounts are stated for the 7 months and 25 days ended 29 February 2008.

Principal activities

The principal activity of the Company continued to be the leasing of aircraft and aircraft spare engines.

Directors and directors' interests

The directors who held office during the period were as follows:

S B Ridgway
J H Southern

Business review

The profit before taxation amounted to $36,722 for the year ended 28 February 2009 *(7 months and 25 days ended 29 February 2008 profit: $38,516).*

Dividends

The directors do not recommend the payment of a dividend *(2008: $nil).*

Auditors

The members of the Company have agreed under Articles 87(4) and 109(4) of the Companies (Jersey) Law 1991 to dispense with the previous statutory requirement to holding annual general meetings, to lay accounts before the Company in general meetings and to reappoint auditors annually. This last resolution will lead to the continuing appointment of KPMG LLP as auditors of the Company until further notice.

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

I M J de Sousa
Company Secretary

Company Secretariat
47 Esplanade
St Helier
Jersey
JE1 0BD
25 August 2009

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and generally accepted accounting principles. The directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 for that period.

In preparing these 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 to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. 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.

KPMG
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditor's report to the members of Bug Leasing Limited

We have audited the financial statements of Bug Leasing Limited for the year ended 28 February 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. 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' responsibility for preparing the financial statements in accordance with applicable law and UK Accounting Standards are set out in the Statement of Directors' Responsibilities on page 2. Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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, in accordance with UK Accounting Standards, of the state of the Company's affairs as at 28 February 2009 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

27 August 2009

Profit and loss account

for the year ended 28 February 2009

	Note	**Year ended 28 February 2009**	7 months and 25 days ended 29 February 2008
		$	$
Turnover	*1*	**770,636**	584,137
Cost of sales		**(35,900)**	(10,000)
Gross profit		**734,736**	574,137
Interest receivable and similar income	*2*	**1,146**	-
Interest payable and similar charges	*3*	**(699,160)**	(535,621)
Profit on ordinary activities before taxation	*6*	**36,722**	38,516
Tax on profit on ordinary activities	*7*	**(10,345)**	(11,555)
Retained profit for the financial periods	*15*	**26,377**	26,961

There are no recognised gains or losses other than the profit for the period. The profit for the period arises from continuing activities.

The notes on pages 6 to 12 form part of these financial statements.

Balance sheet

at 28 February 2009

	Note		**28 February 2009**		29 February 2008
		$	**$**	$	$
Intangible assets					
Goodwill	*8*		**-**		35,900
Current assets					
Debtors: amounts falling due within one year	*9*	**890,413**		2,051,835	
Debtors: amounts falling due after one year	*10*	**12,624,029**		11,137,390	
Total debtors		**13,514,442**		13,189,225	
Creditors: amounts falling due within one year	*11*	**(929,057)**		(1,921,719)	
Net current assets			**12,585,385**		11,267,506
Total assets less current liabilities			**12,585,385**		11,303,406
Creditors: amounts falling due after one year	*12*		**(12,460,790)**		(11,205,188)
Net assets			**124,595**		98,218
Capital and reserves					
Called up share capital	*13*		**90**		90
Share premium	*14*		**49,910**		49,910
Profit and loss account	*15*		**74,595**		48,218
Shareholders' funds	*16*		**124,595**		98,218

These financial statements were approved by the Board of Directors on 25 August 2009 and were signed on its behalf by:

J H Southern
Director

The notes on pages 6 to 12 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 financial statements of the Company.

(a) Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies (Jersey) Law 1991 and applicable United Kingdom 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 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.

(b) Turnover

Turnover arises entirely from interest received on finance leases.

(c) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in United States Dollars ($), which is the Company's functional and presentation currency.

(d) Taxation including deferred tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

(e) Leases

Leases are classified as operating or finance leases. Under a finance lease a lessor retains legal title to an asset but passes substantially all the risks and rewards of ownership to the lessee in return for a stream of rentals. In substance, under a finance lease, the lessor provides finance and expects a return thereon.

In the case of an operating lease the lessor retains both the legal title and the risks and rewards of ownership of the asset. It may not be possible to predict with certainty the future rentals and expenses, as they may be received and incurred under successive lease agreements with one or more parties; furthermore, the equipment may become obsolete, and changes in the level of economic activity may affect demand. In substance, under an operating lease the lessor is trading with the assets he leases.

Finance leases receivable represents all amounts owed to the Company net of future gross earnings.

The amount due from the lessee under a finance lease is recorded in the balance sheet at the amount of the net investment in the lease after making provision for items such as bad and doubtful rentals receivable.

Total gross earnings under a finance lease are allocated to give a constant periodic rate of return on the net cash investment in the lease in each period.

Notes *(continued)*

1 Principal accounting policies *(continued)*

(f) Intangible fixed assets

All fixed assets are initially recorded at cost, and are amortised over their anticipated useful lives.

Purchased goodwill is capitalised in the balance sheet as an intangible asset and amortised through the profit and loss account over its estimated useful economic life, in accordance with Financial Reporting Standard 10.

The carrying values of intangible assets with a finite life are reviewed for impairment at the end of the first full year following acquisition and in subsequent periods if events or changes in circumstances indicate the carrying value may not be recoverable.

2 Interest receivable and similar income

	Year ended 28 February 2009 $	7 months and 25 days ended 29 February 2008 $
Other income	**1,146**	-

3 Interest payable and similar charges

	Year ended 28 February 2009 $	7 months and 25 days ended 29 February 2008 $
Interest payable on intercompany loans	**683,808**	-
Interest paid on other loans	**15,352**	535,621
	699,160	535,621

4 Staff numbers

The Company did not employ any staff during the period ended 28 February 2009 *(2008: nil).*

5 Emoluments of directors

The directors did not receive any emoluments for the period ended 28 February 2009 *(2008: $nil).*

Notes *(continued)*

6 Profit on ordinary activities before taxation

	Year ended 28 February 2009 $	7 months and 25 days ended 29 February 2008 $
Profit on ordinary activities before taxation is stated after charging:		
Amortisation of intangible fixed assets	**35,900**	10,000

Auditors' remuneration for current and previous period audit services are to be paid a fellow subsidiary, Virgin Atlantic Airways Limited (2009: £2,000, *2008: £2,000*).

Fees payable to the Company's auditor and its associates for services other than the statutory audit of the Company and subsidiaries are not disclosed in Bug Leasing Limited's accounts since the consolidated accounts of Bug Leasing Limited's parent, Virgin Atlantic Limited, are required to disclose non-audit fees on a consolidated basis.

7 Tax on profit on ordinary activities

	Year ended 28 February 2009 $	7 months and 25 days ended 29 February 2008 $
Current tax		
Amounts payable in respect of group relief	**10,345**	11,555

The standard rate of UK corporation tax for the year is 28% (*2008: 30%*). The actual current tax charge for the year differs from that computed by applying the standard tax rate to the profit on ordinary activities before tax as reconciled below:

	Year ended 28 February 2009 $	7 months and 25 days ended 29 February 2008 $
Profit on ordinary activities before taxation	**36,722**	38,516
Tax at the standard rate 28% *(2008: 30%)*	**10,282**	11,555
Factors affecting the charge for the year:		
Effect of decreased tax rate	**63**	-
Total current tax	**10,345**	11,555

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

Notes *(continued)*

8 Intangible Assets

	Goodwill $
Cost	
At 29 February 2008 and **28 February 2009**	**50,000**
Amortisation	
At March 2008	(14,100)
Charge for the period	(35,900)
At 28 February 2009	**(50,000)**
Net book value	
At 28 February 2009	-
At 29 February 2008	35,900

Goodwill arising from the purchase of a leasing business is amortised on a systematic basis over a period of less than 5 years, being its estimated useful economic life.

Following the termination of the aircraft lease, the goodwill has been fully written down and recovered through termination payments.

9 Debtors

Amounts falling due within one year

	2009 $	2008 $
Amounts owed by group companies	**51,332**	-
Trade debtors	-	73,873
Interest receivable on finance leases	**45,099**	-
Finance leases receivable (see note 17)	**793,982**	1,977,962
	890,413	2,051,835

10 Debtors

Amounts falling due after one year

	2009 $	2008 $
Finance leases receivable (see note 17)	**12,624,029**	11,137,390

Notes *(continued)*

11 Creditors: amounts falling due within one year

	2009 $	2008 $
Other loans	-	1,910,164
Loan from fellow subsidiary undertaking	866,435	-
Interest payable on loans	40,722	-
Group relief payable	21,900	11,555
	929,057	1,921,179

Amounts repayable to a fellow subsidiary undertaking carry interest of 5 per cent per annum charged on outstanding loan balances.

12 Creditors: amounts falling due after one year

	2009 $	2008 $
Other loans	-	11,205,188
Loan from fellow subsidiary undertaking	12,460,790	-
	12,460,790	11,205,188

Amounts repayable to a fellow subsidiary undertaking carry interest of 5 per cent per annum charged on outstanding loan balances.

13 Share capital

	2009 $	2008 $
Authorised		
10, 000 ordinary shares of £1 each	17,700	17,700
Allotted, called up and fully paid		
51 ordinary shares of £1 each (US dollar equivalent)	90	90

14 Share premium account

	$
At 29 February 2008 and **28 February 2009**	49,910

Notes *(continued)*

15 Reserves

	Profit and loss account $
Balance at 29 February 2008	48,218
Retained profit for the financial period	26,377
Balance at 28 February 2009	**74,595**

16 Reconciliation of movements in equity shareholders' funds

	2009 $	2008 $
Retained profit for the financial period	**26,377**	26,961
Opening equity shareholders' funds	**98,218**	71,257
Closing equity shareholders' funds	**124,595**	98,218

17 Finance leases

The net investment in finance leases of the Company at 28 February 2009 are as follows:

	2009 $	2008 $
Amounts due within:		
One year	**793,982**	1,977,962
Second to fifth year inclusive	**12,624,029**	11,137,390
Over five years	-	-
	13,418,011	13,115,352

The aggregate rentals received under finance leases amounted to $14,652,515 for the year ended 29 February 2009 *(7 months and 25 days ended 28 February 2008: $1,977,962)*.

The Company had no annual commitments under non-cancellable operating leases at 28 February 2009.

18 Contingent Liabilities

The Company had no contingent liabilities at 28 February 2009.

Notes *(continued)*

19 Related party transactions

As at 28 February 2009, the Company's ultimate parent company was Virgin Group Holdings Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Holdings Limited. The principal beneficiaries of those trusts are Sir Richard Branson and his immediate family. The shareholders of Virgin Group Holdings 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 entities.

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.

20 Ultimate holding company

As at 28 February 2009, the directors consider the ultimate holding company to be Virgin Group Holdings Limited, a company registered in the British Virgin Islands.

As at 28 February 2009, the largest group in which the results of the Company are consolidated is that headed by Virgin Wings Limited, a company registered in England and Wales.

As at 28 February 2009, the smallest group in which the results of the Company are consolidated is that headed by Virgin Atlantic Limited, a company registered in England and Wales.

Copies of the financial statements for both Virgin Wings Limited and Virgin Atlantic Limited may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff CF14 3UZ.