

VIRGIN MONEY HOLDINGS (UK) LIMITED
(Formerly Virgin Money Group Limited)

3087587

Annual Report

31 December 2005



Virgin Money Holdings (UK) Limited

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Virgin Money Holdings (UK) Limited

Registered No. 3087587

DIRECTORS AND OFFICERS

EXECUTIVE DIRECTORS

Mark Hodgkinson
Richard Fairman

NON-EXECUTIVE DIRECTORS

Gordon McCallum
Patrick McCall

SECRETARY

Peter Gram

AUDITORS

KPMG LLP
8 Salisbury Square
London EC4Y 8BB

BANKERS

Lloyds TSB Bank plc
City Office
PO Box 72, Bailey Drive
Gillingham Business Park
Gillingham
Kent, ME8 0LS

HSBC Bank plc
8 Canada Square
London E14 5HQ

REGISTERED OFFICE

Discovery House
Whiting Road
Norwich NR4 6EJ

Virgin Money Holdings (UK) Limited

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2005.

CHANGE OF NAME

On 21 July 2005, the Company changed its name to Virgin Money Holdings (UK) Limited.

RESULTS AND DIVIDENDS

The results for the year are set out on Page 7. Dividends of £1 were declared and paid during the year (2004: £Nil), see note 14.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Group has continued to act as a provider of Pensions, Personal Equity Plans and Individual Savings products, as distributor of Deposit Accounts and has continued to market a variety of financial services products such as Credit Cards, Loans, Life Insurance and General Insurance. On 8 November 2005, the Group disposed of its rights to income under a credit card distribution agreement in Australia. The Group launched a new range of life and cancer insurance products in December 2005 through a partnership agreement with Scottish Widows.

The Group's operating profit increased by £4.1m to £8.2m in 2005, driven by a significant increase in sales of credit cards and an increase in the value of its funds under management, which stood at £2.4bn at 31 December 2005.

FUTURE DEVELOPMENTS

The Group's philosophy is to take consistently good value Virgin-branded financial products, backed by top quality service, to the mass market. The Group will do this by working in partnership with other best of breed financial services companies. This will mean building further alliances with leading product manufacturers, while also maximising the distribution potential of the rest of the Virgin group.

DISABLED EMPLOYEES

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and it is the group's policy to provide training, career development and promotion to disabled employees wherever appropriate.

EMPLOYEE INVOLVEMENT

Employees benefit from the success of the business by their inclusion in a performance related bonus scheme. Additionally, the continuation of the 'Academy Awards' scheme recognises and rewards the exceptional performance of individuals within the company.

FIXED ASSETS

Details of the group's fixed assets are set out in Notes 15, 16 and 17 to the financial statements.

CHARITABLE CONTRIBUTIONS

During the year the group made various charitable contributions totalling £27,649 (2004: £11,758).

Virgin Money Holdings (UK) Limited

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The names of the current directors are listed on page 1.

The following changes have occurred:

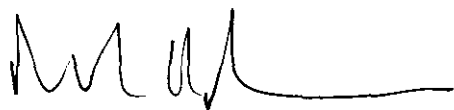
Dr Paul Pester	Resigned	1 July 2005
Ian Larkin	Resigned	1 July 2005
Stephen Murphy	Resigned	2 September 2005
Mark Hodgkinson	Appointed	13 July 2005
Richard Fairman	Appointed	13 July 2005

None of the Directors have any interest in the share capital of the company.

AUDITORS

The members of the Company have passed elective resolutions in accordance with section 366A, 252 and 386 of the Act dispensing with the previous statutory requirement of holding annual general meetings, laying accounts before the Company in general meetings and reappointing auditors annually. KPMG LLP will continue as auditors of the company until further notice.

On behalf of the Board



Mark Hodgkinson
Chief Executive Officer
26 April 2006

Virgin Money Holdings (UK) Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards.

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent 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 judgments 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 group and the parent company will continue in business.*

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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.

Under applicable law the Directors are also responsible for preparing a Director's Report that complies with that law.

Virgin Money Holdings (UK) Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIRGIN MONEY HOLDINGS (UK) LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Virgin Money Holdings (UK) Limited for the year ended 31 December 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses 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 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' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on Page 4.

Our responsibility is to audit the financial statements in accordance with 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 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 other transactions is not disclosed.

We read the Directors Report and consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of audit 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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.

Virgin Money Holdings (UK) Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIRGIN MONEY HOLDINGS (UK) LIMITED

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor
London

26 April 2006

Virgin Money Holdings (UK) Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 2005

	Notes	2005 £000	2004 £000
TURNOVER	2, 3		
Continuing Operations		247,536	226,275
Discontinued Operations		10,685	15,052
		<u>258,221</u>	<u>241,327</u>
Cost of sales	3, 4	(184,594)	(186,330)
Gross Profit	3	<u>73,627</u>	<u>54,997</u>
Administrative expenses	3		
Continuing Operations		(54,639)	(40,151)
Discontinued Operations		(10,822)	(13,375)
		<u>(65,461)</u>	<u>(53,526)</u>
Other operating income	3, 5	-	2,634
OPERATING PROFIT	3, 6		
Continuing Operations		8,434	13
Discontinued Operations		(268)	4,092
		<u>8,166</u>	<u>4,105</u>
Restructuring Costs	11	(1,185)	-
Profit on disposal of discontinued operations	10	2,781	10,653
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		<u>9,762</u>	<u>14,758</u>
Interest receivable and similar income		723	961
Interest payable and similar charges	12	(4,502)	(5,608)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>5,983</u>	<u>10,111</u>
Tax on profit on ordinary activities	13	2,471	(154)
PROFIT FOR THE FINANCIAL YEAR		<u>8,454</u>	<u>9,957</u>
Dividends	14	-	-
RETAINED PROFIT FOR THE FINANCIAL YEAR		<u>8,454</u>	<u>9,957</u>

The accounting policies and notes on pages 13 to 32 form an integral part of these financial statements.

The company has taken advantage of Section 230(1)(b), (4) Companies Act 1985 exempting it from publishing its own profit and loss account. The loss dealt with in the accounts of the holding company for the year was £4.5 million (2004 – profit £16.0 million).

Virgin Money Holdings (UK) Limited

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 2005

	<i>Notes</i>	<i>2005 £000</i>	<i>2004 £000</i>
PROFIT FOR THE YEAR		8,454	9,957
Forgiveness of loan balance by Virgin Management Limited	21	-	8,257
TOTAL RECOGNISED GAINS FOR THE FINANCIAL YEAR		<u>8,454</u>	<u>18,214</u>

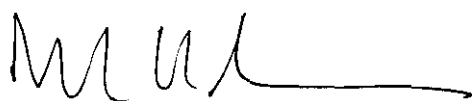
Virgin Money Holdings (UK) Limited

CONSOLIDATED BALANCE SHEET at 31 December 2005

	Notes	2005 £000	2004 £000
FIXED ASSETS			
Intangible assets	15	3,565	3,795
Tangible assets	16	1,955	3,216
Investments	17	-	-
		<u>5,520</u>	<u>7,011</u>
CURRENT ASSETS			
Debtors	18	23,971	19,131
Cash at bank and in hand	19	10,786	8,225
		<u>34,757</u>	<u>27,356</u>
CREDITORS: amounts falling due within one year	20	(14,447)	(16,458)
NET CURRENT ASSETS		<u>20,310</u>	<u>10,898</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>25,830</u>	<u>17,909</u>
CREDITORS: amounts falling due after more than one year	21	(61,767)	(66,429)
PROVISIONS FOR LIABILITIES AND CHARGES	22	(5,690)	(1,561)
NET LIABILITIES		<u>(41,627)</u>	<u>(50,081)</u>
CAPITAL AND RESERVES			
Called up share capital	23	-	79
Share premium	24	-	34,499
Distributable capital reserve	24	23,354	-
Other reserves	24	-	4,808
Profit and loss account	24	(64,981)	(89,467)
EQUITY SHAREHOLDERS' FUNDS	24	<u>(41,627)</u>	<u>(50,081)</u>

The financial statements on pages 7 to 32 were approved by The Board of Directors on 26 April 2006.

The accounting policies and notes on pages 13 to 32 form an integral part of these financial statements.



Mark Hodgkinson
Chief Executive Officer

Virgin Money Holdings (UK) Limited

COMPANY BALANCE SHEET

at 31 December 2005

	Notes	2005 £000	2004 £000
FIXED ASSETS			
Investment in subsidiaries	17	91,820	166,098
		<hr/>	<hr/>
CURRENT ASSETS			
Debtors	18	5	3,857
Cash at bank and in hand		3	1
		<hr/>	<hr/>
		8	3,858
CREDITORS: amounts falling due within one year	20	(5,319)	(79,086)
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(5,311)	(75,228)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		86,509	90,870
		<hr/>	<hr/>
CREDITORS: amounts falling due after more than one year	21	(61,767)	(66,429)
		<hr/>	<hr/>
NET ASSETS		24,742	24,441
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	23	-	79
Share premium	24	-	34,499
Distributable capital reserve	24	23,354	-
Profit and loss account	24	1,388	(10,137)
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS	24	24,742	24,441
		<hr/>	<hr/>

The financial statements on pages 7 to 32 were approved by The Board of Directors on 26 April 2006.

The accounting policies and notes on pages 13 to 32 form an integral part of these financial statements.



Mark Hodgkinson
Chief Executive Officer

Virgin Money Holdings (UK) Limited

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2005

	Notes	2005 £000	2004 £000
CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES	25 (a)	8,243	(7,654)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(4,944)	(27)
Interest received		723	961
NET CASH (OUTFLOW) / INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(4,221)	934
TAXATION			
Taxation paid		-	(521)
CASH OUTFLOW FROM TAXATION		-	(521)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS			
Payments to acquire tangible fixed assets		(746)	(1,967)
Payments to acquire investments		-	(73,015)
Receipts from the sale of investments		-	72,560
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS		(746)	(2,422)
DISPOSALS			
Cash proceeds from the disposal of Virgin Money Life Limited		-	32,631
Cash proceeds from disposal of Australia business	10	4,220	-
Cash disposed of with businesses		(715)	(9,703)
NET CASH INFLOW FROM DISPOSALS		3,505	22,928
NET CASH INFLOW BEFORE FINANCING		6,781	13,265
FINANCING			
Net movement in borrowings	25 (b)	(4,220)	(29,244)
NET CASH OUTFLOW FROM FINANCING		(4,220)	(29,244)
INCREASE / (DECREASE) IN CASH	25 (b)	2,561	(15,979)

Virgin Money Holdings (UK) Limited

CONSOLIDATED CASH FLOW STATEMENT (continued) for the year ended 31 December 2005

	Notes	2005 £000	2004 £000
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Increase /(decrease) in cash		2,561	(15,979)
Cash outflow from decrease in loans		4,220	28,857
Cash outflow from decrease in lease financing		-	387
Change in net debt arising from cash flows	25 (b)	6,781	13,265
Forgiveness of loan balance by Virgin Management Limited	21	-	8,257
Rolled up loan interest	25 (b)	442	(5,581)
MOVEMENT IN NET DEBT		7,223	15,941
NET DEBT AT 1 JANUARY	25 (b)	(58,204)	(74,145)
NET DEBT AT 31 DECEMBER	25 (b)	(50,981)	(58,204)

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on a going concern basis and under the historical cost convention. The financial statements have also been prepared in accordance with applicable accounting standards. The principal accounting policies have been applied consistently and are set out below.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between treatment of certain items for taxation and accounting purposes.

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, or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

Consolidation basis

The group financial statements consolidate the accounts of Virgin Money Holdings (UK) Limited and all its subsidiary undertakings drawn up to 31 December each year.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less any impairment.

Turnover

Turnover is stated net of value added tax. Turnover is recognised to reflect underlying contracts with product providers, being from the date credit cards issued in the UK are activated, credit cards issued in Australia are utilised, loans are drawn down or general and life insurance policies are on risk. Turnover from sales of Individual Savings Accounts (ISAs) is recognised daily based on the average volume of ISA funds under management. Deposit account and other income is recognised as earned. Turnover from unit trusts is recognised from the date of sale of units. Management fees are recognised daily based on the value of the fund.

Unit trusts

The stock of units in authorised unit trusts has been valued at the lower of cost and cancellation cost at the balance sheet date.

Intangible fixed assets and amortisation

The cost of intangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Amortisation is provided on a straight-line basis in order to write off the cost of the assets less their residual value over their estimated useful lives. Amortisation is charged from the date of acquisition. The estimated useful life is 20 years.

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

1. ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

The cost of fixed assets is their purchase cost plus incidental costs of acquisition. Depreciation is provided on a straight-line basis in order to write off the cost of fixed assets, less their appropriate residual value, over their estimated useful lives. Depreciation is charged from the date assets are brought into use.

Leasehold improvements	5 years
Computer hardware	4 years
Computer software	3 years
Office equipment	5 years

Foreign currency translation

Transactions denominated in foreign currencies are translated into the local currency at monthly average rates of exchange.

Monetary assets and liabilities nominated in a foreign currency are re-translated at the exchange rate ruling on the balance sheet date.

The foreign subsidiary is regarded as an integral entity, which means that the transactions are dealt with as if they had been executed by the parent. For consolidation purposes, the financial statements of the foreign subsidiary are translated according to the temporal method.

Exchange differences arising from translation of both the balance sheet and profit and loss account of the foreign subsidiary are included in the Group's profit and loss account.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Leases

Rentals payable under operating leases are charged in the profit and loss account as they fall due under the contract.

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

1. ACCOUNTING POLICIES (continued)

POLICIES IN RESPECT OF PREVIOUS LIFE SUBSIDIARY, DISPOSED OF IN AUGUST 2004

Premiums

Gross premiums are accounted for on policy anniversaries (monthly / annual). Reinsurance premiums are accounted for when gross premiums are receivable.

Investments

Investment valuations

Listed investments are included in the balance sheet at mid-market value and loans at directors' valuation.

Investment income and expenses

Investment income includes interest and gains and losses on the realisation of investments and related expenses. Interest and expenses are accounted for on an accruals basis.

Investment gains

Realised gains and losses on investments are calculated as the difference between net sales proceeds and their original cost.

Claims

Claims are accounted for as and when notification is received.

Long-term business provision

The long-term business provision is determined by the Company's Appointed Actuary following his annual investigation of the long-term business and is calculated on the Modified Statutory Solvency Basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The calculation uses the net premium valuation method.

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

2. TURNOVER AND SEGMENTAL ANALYSIS

Turnover, which is net of value added tax, is attributable to the sale and management of Personal Equity Plans, pensions, authorised unit trusts, deposit and Individual Savings Accounts and the marketing of other financial service products. Turnover is derived in the United Kingdom and Australia and relates to continuing and discontinued operations.

	2005 £000	2004 £000
Turnover:		
Investment business	203,380	204,798
Protection business	3,755	1,480
Credit business – continuing operations	40,401	19,997
Credit business – discontinued operations	10,685	15,052
	<u>258,221</u>	<u>241,327</u>
Profit / (loss) before taxation:		
Investment and Protection business*	8,182	12,572
Credit business	10,345	647
Other	(8,078)	(7,881)
Holding company not attributed	(4,466)	4,773
	<u>5,983</u>	<u>10,111</u>
Net assets:		
Investment and Protection business*	8,158	6,350
Credit business	14,197	7,407
Other	(2,177)	2,308
Holding company not attributed	(61,805)	(66,146)
	<u>(41,627)</u>	<u>(50,081)</u>

* The company's subsidiary, Virgin Money Personal Financial Service Limited operates both an Investment and a Protection business and it is not possible to split the profit/(loss) before taxation and the net assets.

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

3. ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS

	2005			2004		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
Turnover	247,536	10,685	258,221	226,275	15,052	241,327
Cost of sales	(184,463)	(131)	(184,594)	(186,111)	(219)	(186,330)
Gross profit	63,073	10,554	73,627	40,164	14,833	54,997
Administrative expenses	(54,639)	(10,822)	(65,461)	(40,151)	(13,375)	(53,526)
Other operating income	-	-	-	-	2,634	2,634
Operating profit/(loss)	8,434	(268)	8,166	13	4,092	4,105

The operations discontinued in 2005 comprise the Australia card business – see Note 10.

4. COST OF SALES

	2005 £000	2004 £000
Cost of sales of units:		
Opening stock	-	-
New units created	87,488	95,345
Units repurchased	230,561	195,599
Cancellations	(138,441)	(107,591)
Closing stock	-	-
	<u>179,608</u>	<u>183,353</u>
Costs of units issued:		
Stamp duty	364	367
Other	4,622	2,610
	<u>184,594</u>	<u>186,330</u>

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

5. OTHER OPERATING INCOME

	2005 £000	2004 £000
Balance on the long term business technical account	-	2,634

Virgin Money Life Limited was sold on 24 August 2004. The balance on the long-term business technical account as at 24 August 2004 comprised the following:

	24 August 2004 £000
Earned premiums:	
Gross premiums written	7,916
Outwards reinsurance premiums	(4,151)
Earned premiums net of reinsurance	3,765
Investment income	123
Unrealised gains on investments	130
Total technical income	4,018
Claims incurred:	
Claims paid	
gross amount	(1,690)
reinsurers' share	1,152
net of reinsurance	(538)
Change in provision for outstanding claims	
gross amount	231
reinsurers' share	(229)
net of reinsurance	2
Change in other technical provisions:	
Long term business provision	
gross amount	(2,339)
reinsurers' share	1,500
net of reinsurance	(839)
Other charges:	
Net operating expenses	-
Investment expenses and charges	(9)
Unrealised losses on investments	-
Balance on the long term business technical account	2,634

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

6. OPERATING PROFIT

	2005 £000	2004 £000
Operating profit is stated after charging:		
Auditors' remuneration		
- audit services	102	85
- non-audit services	78	5
	<u>180</u>	<u>90</u>
Depreciation of owned fixed assets	1,427	1,802
Depreciation of assets held under a finance lease	-	215
	<u>1,427</u>	<u>2,017</u>
Amortisation of trademark	230	230
	<u>1,657</u>	<u>2,247</u>
Operating lease rentals		
- land and buildings	778	471
- plant and machinery	19	55
	<u>797</u>	<u>526</u>
Loss on disposal of fixed assets	31	9
	<u>31</u>	<u>9</u>
Losses due to currency movements	40	781
	<u>40</u>	<u>781</u>

7. DIRECTORS' EMOLUMENTS

	2005 £000	2004 £000
Emoluments	610	708
Contributions to money purchase pension schemes	49	33
Payments for loss of office	292	-
	<u>951</u>	<u>741</u>

No emoluments were paid to non-executive directors (2004 - £Nil).

Retirement benefits are accruing to two directors under a money purchase pension scheme.

The highest paid director received emoluments of £242,500 (2004 - £445,000) and contributions to money purchase pension schemes of £8,000 (2004: £25,000).

The directors benefit under a long term incentive scheme (see Note 22). However, amounts receivable by directors under this scheme will not become due until 31 December 2007 and will be disclosed as director's emoluments in that year.

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

8. EMPLOYEE INFORMATION

	2005 £000	2004 £000
Wages and salary costs	15,273	13,666
Social security costs	1,681	1,528
Pension costs	752	677
	<u>17,706</u>	<u>15,871</u>

The 2005 amounts above include exceptional redundancy costs – see Note 11.

The average number of persons employed during the year was made up as follows:

	No.	No.
Call Centre & Administration	183	204
IT	81	89
Finance & Compliance	51	49
Marketing	56	52
	<u>371</u>	<u>394</u>

9. OTHER FINANCIAL COMMITMENTS

At 31 December 2005 the Group had annual commitments under non-cancellable operating leases as set out below:

Group	2005 £000	2004 £000
<i>Land and buildings</i>		
Operating leases which expire:		
Within one year	8	7
In two to five years	125	346
In over five years	452	452
<i>Equipment</i>		
Operating leases which expire:		
Within one year	113	15
In two to five years	300	640
	<u>998</u>	<u>1,460</u>

The Group has an annual commitment under a contract for the supply of IT services.

The Company has no operating lease commitments.

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

10. DISPOSALS

AUSTRALIA BUSINESS

The Group disposed of its Australia business in the year through two transactions:

- a dividend by Virgin Money Holdings (UK) Limited of its investment in Virgin Money Overseas Limited on 21 October 2005; and
- the disposal by Virgin Money Limited of its rights under the Australia credit card referral agreement with Westpac Bank on 8 November 2005.

These transactions have been accounted for as a disposal and result in a net profit on disposal of £2,781,000 which has been recognised in the profit and loss account. The proceeds and net assets disposed of are disclosed below:

Disposal through dividend of Virgin Money Overseas Limited	£000
Tangible fixed assets	549
Debtors	330
Cash at bank and in hand	715
Creditors	(1,149)
	<hr/>
	445
Consideration received	-
	<hr/>
Loss on disposal	445
	<hr/>
Disposal by Virgin Money Limited of Rights under Credit Card Referral Agreement	
Consideration received	4,220
Rights under contract (rights to control contract and rights to future cash flows)	-
	<hr/>
Profit on disposal	4,220
Of which,	
Recognised in 2005	3,226
Deferred (see below)	994
	<hr/>
	4,220
	<hr/>

Of the profit arising, £993,726 relates to the fair value of Virgin Money Limited's rights to future income under the term of the Westpac contract to May 2008. This profit is being deferred and recognised over the relevant periods in which the cash flows under the contract are expected to arise.

In addition, the company is entitled to receive further income of up to A\$6m depending on the performance of the Australia card business in the three years to November 2008. No amounts have been recognised in 2005 and this income will only be recognised once the company is certain to receive it.

The tax charge arising in the period on the exceptional profits was £950,000.

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

10. DISPOSALS (continued)

FORMER LIFE COMPANY

On 24 August 2004, the company sold the whole of the issued share capital of Virgin Money Life Limited to Reassure UK Life Assurance Company Limited, a company incorporated in Great Britain, for a cash consideration of £33.739m.

The following table summarises the assets and liabilities disposed of and the profit arising.

	£000
Cash at bank and in hand	9,703
Investments	22,537
Other assets	3,266
Long term business provision	(8,819)
Other liabilities	(4,709)
	<hr/>
	21,978
Expenses associated with sale	1,108
Profit on disposal	10,653
	<hr/>
Consideration received	33,739
	<hr/>

11. RESTRUCTURING COSTS

On 26 September 2005, Virgin Money Management Services Limited announced its plans to outsource its administration, sales and service function to a third party provider, International Financial Data Systems Limited (IFDS). A number of employees affected by this outsourcing were advised at this time that their roles will either transfer to IFDS in mid 2006 or become redundant.

During 2005 a number of other roles were made redundant as part of a restructuring of the Virgin Money group. The restructuring refocused the group from a global to a UK-centric organisation.

The financial statements include redundancy costs incurred in the year of £685,000 and a provision for £500,000 in respect of the estimated redundancy costs to be paid out in 2006 (2004: Nil).

The tax effect of this exceptional item is £356,000 (2004: Nil)

12. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £000	2004 £000
Finance charges payable under finance leases	-	11
Interest on long term loans	4,438	5,581
Other interest and charges	64	16
	<hr/>	<hr/>
	4,502	5,608
	<hr/>	<hr/>

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

13. TAXATION

	2005 £000	2004 £000
Corporation tax	61	147
Prior year adjustment	(5)	21
Deferred tax	(2,527)	(14)
Current tax (credit) / charge for the year	(2,471)	154

Group relief is taken where available and is paid for in full.

Factors affecting the tax charge for the year

The current tax charge for the period is lower (2004: lower) than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are set out below:

	2005 £000	2004 £000
Profit on ordinary activities before tax	5,983	10,111
Profit above multiplied by standard rate of corporation tax (30%)	1,795	3,033
Tax losses	(2,232)	(1,578)
Depreciation in excess of capital allowances	(538)	1,723
Adjustments in respect of previous periods	(5)	21
Deferred tax asset recognised in the year	(2,527)	-
Disallowed expenses and non-taxable income	276	(2,523)
Other timing differences	760	(536)
Life Taxation	-	14
Current tax (credit) / charge for the year	(2,471)	154

14. DIVIDENDS

On 13 June 2005, the Company declared a dividend in specie to its parent, Virgin Money Investment Group Limited, in respect of the rights the Company had to use certain Virgin trade marks in relation to the provision of certain financial services and products outside of the UK. These rights had not been recognised on the Company's balance sheet and accordingly the dividend in specie was determined to be at zero value.

On 13 June 2005, the Company received dividends in specie from its subsidiaries, Virgin Money Unit Trust Managers Limited and Virgin Money Personal Financial Service Limited, in respect of certain rights those subsidiaries had to use certain Virgin trade marks in relation to the provision of certain financial services and products outside of the UK. On 13 June 2005, the company declared a dividend in specie of the same rights to its parent, Virgin Money Investment Group Limited. These rights had not been recognised on the respective balance sheets of those subsidiaries and hence the respective dividends in specie were determined to be at zero value.

On 13 June 2005, the Company's subsidiary Challenger (Norwich) Limited declared a cash dividend of £79,086,202.81 which sum was satisfied by way of set-off against an equivalent amount of the intercompany balance owed from the Company to Challenger (Norwich) Limited.

On 21 October 2005, the Company declared a dividend in specie of the entire issued share capital of 1 ordinary share of £1 in its subsidiary, Virgin Money Overseas Limited to its parent, Virgin Money Investment Group Ltd.

No dividends were declared in 2004.

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

15. INTANGIBLE FIXED ASSETS

<i>Group</i>	<i>Trademark £000</i>
Cost:	
At 1 January 2005 and 31 December 2005	4,600
Amortisation:	
At 1 January 2005	805
Charge for the year	230
At 31 December 2005	1,035
Net book value:	
At 31 December 2005	3,565
At 31 December 2004	3,795

The reference to trade mark, represents the right to use certain Virgin trade marks in relation to the provision of certain financial services and products. This is being amortised over the directors' estimate of its useful economic life of 20 years.

The company has no intangible fixed assets.

16. TANGIBLE FIXED ASSETS

<i>Group</i>	<i>Leasehold improvements £000</i>	<i>Computer hardware £000</i>	<i>Computer software £000</i>	<i>Office equipment £000</i>	<i>Total £000</i>
Cost:					
At 1 January 2005	1,189	6,185	4,097	640	12,111
Additions	42	532	165	9	748
Disposals	(198)	(1,995)	(1,361)	(2)	(3,556)
At 31 December 2005	1,033	4,722	2,901	647	9,303
Depreciation:					
At 1 January 2005	650	4,482	3,357	406	8,895
Charge for the year	144	818	390	75	1,427
Disposals	(48)	(1,604)	(1,320)	(2)	(2,974)
At 31 December 2005	746	3,696	2,427	479	7,348
Net book value					
At 31 December 2005	287	1,026	474	168	1,955
At 31 December 2004	539	1,703	740	234	3,216

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

The company has no tangible fixed assets.

17. INVESTMENTS

	2005 £000	2004 £000
<i>Group</i>		
Investment in EMX	-	-

The investment in EMX represents a holding in a company set up by AUTIF in 2000 to provide an electronic unit trust settlement system. The investment reflects the Directors' latest view of the shares' value.

Company

The Company's principal subsidiary undertakings as at 31 December 2005, all of which are included in the consolidated financial statements, are set out below. All subsidiary undertakings are 100% owned directly or indirectly and incorporated in England and Wales.

Virgin Money Personal Financial Service Limited
Virgin Money Unit Trust Managers Limited
Virgin Money Management Services Limited
Virgin Money Limited
Challenger (Norwich) Limited

On 13 June 2005, the Company wrote down the carrying value of its investment in Challenger (Norwich) Limited by £79,086,202.81 as the carrying value was impaired following the receipt of a dividend from Challenger (Norwich) Limited of £79,086,202.81 which was netted off a liability of Challenger (Norwich) Limited at that time (see also Note 14).

On 21 October 2005, the Company declared a dividend in specie in respect of its investment in Virgin Money Overseas Limited (see Notes 10 and 14).

On 22 December 2005, the Company reversed a previous impairment in the carrying value of its investment in Virgin Money Unit Trust Managers Limited as the Directors were satisfied that the original cost of this investment is a more appropriate carrying value (see Note 24).

18. DEBTORS

	2005 £000	2004 £000
<i>Group</i>		
Trade debtors	20,029	16,430
Deferred tax asset	2,527	-
Other debtors	317	560
Corporation tax	5	318
Prepayments and accrued income	1,093	1,823
	<u>23,971</u>	<u>19,131</u>
<i>Company</i>		
Amounts owed by subsidiaries	-	3,576
Corporation tax	5	281
	<u>5</u>	<u>3,857</u>

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

19. CASH

The Company's subsidiaries, Virgin Money Unit Trust Managers Limited and Virgin Money Personal Financial Service Limited are regulated by the Financial Services Authority and the Group's cash balance includes an amount used to cover their regulatory capital requirements.

At 31 December 2005, the Group had £384,471 of cash held in escrow (2004: Nil). This escrow amount was released subsequent to the year end.

20. CREDITORS: amounts falling due within one year

	2005 £000	2004 £000
<i>Group</i>		
Trade creditors	7,083	6,018
Other taxes and social security costs	997	953
Other creditors	3,347	2,910
Accruals and deferred income	3,020	6,577
	<u>14,447</u>	<u>16,458</u>
<i>Company</i>		
Amounts owed to subsidiary undertakings	5,273	79,086
Group relief payable	46	-
	<u>5,319</u>	<u>79,086</u>

21. CREDITORS: amounts falling due after more than one year

	2005 £000	2004 £000
<i>Group</i>		
Loans from related parties	61,767	66,429
	<u>61,767</u>	<u>66,429</u>
<i>Company</i>		
Loans from related parties	61,767	66,429
	<u>61,767</u>	<u>66,429</u>

Group and Company

Interest payable on loans from related parties in the year is £4.2million (2004 - £3.6 million). The loans comprise:

	<i>Repayment date</i>	<i>Interest Rates</i>	2005 £000	2004 £000
Virgin Management Ltd	27 April 2011	220 bp above 12 month LIBOR	59,877	64,645
Virgin Trusts	2 February 2006	100 bp above 12 month LIBOR	1,890	1,784
			<u>61,767</u>	<u>66,429</u>

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

21. CREDITORS: amounts falling due after more than one year (continued)

On 8 November 2005, the Company repaid £4.2m of the loan to Virgin Management Limited using proceeds of its subsidiary Company's disposal of its rights under the Australia card contract (see Note 10).

On 27 April 2004 Virgin Group Investments Limited purchased HHG plc's shareholding in Virgin Money Holdings (UK) Limited. In accordance with the sale agreement, HHG plc, through its subsidiary Pearl Assurance, transferred to Virgin Management Limited the benefit of all its rights and Virgin Management Limited assumed all of the obligations and liabilities arising under the original loan facilities. An amount of the total loan balance was forgiven by Virgin Management Limited. This reduction in the total loan balance to £89,999,999 gave rise to a gain, as recognised in the Statement of Total Recognised Gains and Losses of Virgin Money Holdings (UK) Limited, of £8,257,000 in 2004.

22. PROVISIONS FOR LIABILITIES AND CHARGES

	2005 £000	2004 £000
<i>Group</i>		
Deferred Tax	-	-
UK Card Reward Scheme	2,782	1,561
Redundancy Costs	500	-
Long Term Incentive Scheme	2,408	-
	<u>5,690</u>	<u>1,561</u>

The Company has no provisions for liabilities and charges.

22.1 DEFERRED TAX

A deferred taxation asset of £2,527,430 has been recognised in the financial statements in respect of losses to be utilised against profits expected to be earned in 2006. The deferred taxation asset representing all remaining tax losses (and other timing differences) which has not been included in the financial statements in accordance with the accounting policy is as follows:

	2005 £000	2004 £000
<i>Group</i>		
Losses for taxation purposes carried forward	24,090	28,554
Accelerated capital allowances in arrears of depreciation	2,459	3,005
Other short term timing differences	1,705	950
Brought forward tax losses now recognised as a deferred tax asset (see note 13)	(2,527)	-
Deferred taxation asset	<u>25,727</u>	<u>32,509</u>
<i>Company</i>		
Losses for taxation purposes carried forward	7,294	6,936
Other short term timing differences	267	235
Deferred taxation asset	<u>7,561</u>	<u>7,171</u>

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

22.2 UK CARD REWARD SCHEME

	<i>Reward Scheme Provision £000</i>
At 1 January 2005	1,561
Increase in provision	1,547
Redemptions	(326)
At 31 December 2005	<u>2,782</u>

The UK credit card Reward Scheme provision is based upon the estimated redemption cost of the points which are expected to be redeemed at some point in the future. The timing of the redemption and ultimate payment is entirely dependent upon the actions of the reward scheme members.

22.3 REDUNDANCY COSTS

Provision has been made for redundancy costs expected to be incurred in mid-2006 – see Note 11.

22.4 LONG TERM INCENTIVE SCHEME

Provision has also been made for amounts payable to Directors and other members of the senior management team under a long term incentive scheme. These amounts reflect the directors' best estimate of the potential liability, 50% of which is payable at the end of 2007 and 50% of which is payable at the end of 2008.

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

23. SHARE CAPITAL

<i>Class</i>	<i>Authorised 2005 £</i>	<i>Allotted, called up & fully paid 2005 No</i>	<i>Allotted called up & fully paid 2005 £</i>	<i>Authorised 2004 £</i>	<i>Allotted, called up & fully paid 2004 No</i>	<i>Allotted, called up & fully paid 2004 £</i>
Virgin A Ordinary shares of 0.1p each	800	100,000	100	16,076	15,376,250	15,376
Abbot A Ordinary shares of 0.1p each	-	-	-	1,424	1,423,750	1,424
Virgin B Ordinary shares of 0.1p each	-	-	-	50,000	-	-
Abbot B Ordinary shares of 0.1p each	-	-	-	50,000	-	-
Virgin Convertible Ordinary shares 0.1p each	-	-	-	686	686,250	686
Abbot Convertible Ordinary shares 0.1p each	-	-	-	64	63,750	64
AMP A Ordinary shares 0.1p each	-	-	-	67,500	17,550,000	17,550
AMP B Ordinary shares of 0.1p each	-	-	-	50,000	-	-
Deferred ordinary shares of 0.1p each	-	-	-	44,000	44,000,000	44,000
	<u>800</u>	<u>100,000</u>	<u>100</u>	<u>279,750</u>	<u>79,100,000</u>	<u>79,100</u>

On 30 March 2005, a reduction of the Company's capital and cancellation of its share premium account was registered with the Registrar of Companies pursuant to section 138 of the Companies Act 1985. The effect of which was: to cancel the Company's share premium account of £34,498,187; to reduce the Company's authorised Share capital from £279,750 divided into various classes of shares to £800 divided into one class of shares of 800,000 Virgin 'A' Ordinary shares of 0.1p each; to reduce the Company's allotted, called up and fully paid share capital from £79,100 to £100; and to eliminate the deficit on the Company's profit and loss account, with the balance of £23,354,254 credited to a distributable capital reserve.

The Virgin A Ordinary shares of 0.1p each have equal rights.

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

24. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	<i>Share Capital</i>	<i>Share Premium</i>	<i>Distributable Capital Reserve</i>	<i>Profit & Loss</i>	<i>Other Reserves</i>	<i>Total</i>
	£'000	£'000	£'000	£'000	£'000	£'000
Group						
At 1 January 2005	79	34,499	-	(89,467)	4,808	(50,081)
Capital Reduction (Note 23)	(79)	(34,499)	23,354	11,224	-	-
Investment write-back (Note 17)	-	-	-	4,808	(4,808)	-
Profit for the Year	-	-	-	8,454	-	8,454
At 31 December 2005	-	-	23,354	(64,981)	-	(41,627)

Company

At 1 January 2005	79	34,499	-	(10,137)	-	24,441
Capital Reduction (Note 23)	(79)	(34,499)	23,354	11,224	-	-
Investment write-back (Note 17)	-	-	-	4,808	-	4,808
Loss for the Year	-	-	-	(4,507)	-	(4,507)
At 31 December 2005	-	-	23,354	1,388	-	24,742

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

25. NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of operating profit to net cash inflow / (outflow) from operating activities

	2005 £000	2004 £000
Operating profit	8,166	4,105
Cash costs of fundamental restructuring	(685)	-
Depreciation and amortisation	1,657	2,247
Loss on disposal of fixed assets	31	9
Increase in operating debtors and prepayments	(3,387)	(8,540)
Decrease in operating creditors and accruals	(1,168)	(6,862)
Increase in other provisions	3,629	1,387
Net cash inflow / (outflow) from operating activities	8,243	(7,654)

b) Analysis of net debt

	At 1 January 2005 £000	Cash flow £000	Non Cash Movements £000	At 31 December 2005 £000
Cash at bank and in hand	8,225	2,561	-	10,786
Long term loans (see Note 21)	(66,429)	4,220	442	(61,767)
	(58,204)	6,781	442	(50,981)

The non-cash movement relates to interest accrued in the year of £442,000.

26. RELATED PARTY TRANSACTIONS

In accordance with the exemption provided in FRS 8 paragraph 3(c) the company does not disclose transactions with related parties that are part of the Virgin Money Holdings (UK) Limited group.

The Group paid a licence fee of £703,426 (2004: £587,860) to Virgin Enterprises Limited, in which the ultimate shareholder of the Group has an interest. The balance outstanding at the end of the year was £43,817 (2004: £204,499).

The Group incurred air mile charges of £1,959,827 (2004 - £1,110,533) to Virgin Atlantic Limited, in which the ultimate shareholder of the Group has an interest. The balance outstanding at the end of the year was £225,075 (2004 - £249,472).

27. CAPITAL COMMITMENTS

The Group had capital commitments of £179,000 (2004: £4,000) at the balance sheet date.

Virgin Money Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

28. PENSION COMMITMENTS

The group operates a defined contribution pension scheme, which pays into the Virgin Stakeholder Pension, for its directors and employees. The assets of the scheme are held separately from those of the company in an independently administered fund. There were no unpaid contributions outstanding at the year-end (2004: £Nil).

29. ULTIMATE CONTROLLING PARTY

At 1 January 2005, the Company's immediate and ultimate controlling party was Virgin Group Investments Limited, a Company incorporated in the British Virgin Islands.

On 18 May 2005, two intermediate holding companies were inserted between Virgin Group Investments Limited and the Company. Following this change, the Company is wholly owned by its immediate parent, Virgin Money Investment Group Limited, a Company incorporated in England and Wales. Virgin Money Investment Group Limited is a wholly owned subsidiary of Virgin Money Investment Holdings (UK) Limited, a Company registered in England and Wales. Virgin Group Investments Limited remains the Company's ultimate parent.

The largest and smallest group in which the results of the Company are consolidated is Virgin Money Investment Holdings Limited, registered in England and Wales. The consolidated accounts of Virgin Money Investment Holdings Limited can be obtained from Companies House.