

3627512

Virgin Direct (2) Limited

Report and Accounts

31 December 99



Virgin Direct (2) Limited

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Virgin Direct (2) Limited

Registered No. 3427512

DIRECTORS

Executive Directors:

J A Gadhia
Dr P Pester
M Lund

Non-Executive Directors:

Sir Richard Branson
P Batchelor
T Thompson
S Murphy
W Gorman (Alternate to T Thompson)
G McCallum (Alternate to Sir Richard Branson, S Murphy)
P Johnson (Alternate to P Batchelor)

SECRETARY

P Gram

AUDITORS

Ernst & Young
Rolls House, 7 Rolls Buildings
Fetter Lane
London EC4A 1NH

BANKERS

HSBC
City of London Corporate Office
PO Box 125
27 - 32 Poultry
London EC2P 2BX

REGISTERED OFFICE

Discovery House
Whiting Road
Norwich NR4 6EJ

Virgin Direct (2) Limited

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 1999

The directors present their annual report and the audited accounts for the year ended 31 December 1999

RESULTS AND DIVIDENDS

The results for the year are set out on pages 7 and 8. The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company owns one half of a joint venture, Virgin Direct Personal Finance Limited, with The Royal Bank of Scotland plc. The principal activity of the joint venture is the marketing and administration of the Virgin *One* account, a personal bank account with The Royal Bank of Scotland which is secured against the customer's home. Services to the company are provided by both partners in the venture.

During the year the company has incurred project expenditure for both an internet shopping pilot scheme and an e-commerce venture.

DIRECTORS AND THEIR INTERESTS

The names of the current directors are listed on page 2. The following changes have taken place during the year:

Sir Malcolm Bates		(Appointed 19 January 1999)	(Resigned 15 September 1999)
P Johnson	Alternate to G Trumbull	(Appointed 28 January 1999)	(Resigned 24 September 1999)
Dr P Pester		(Appointed 31 March 1999)	
M King		(Resigned 25 August 1999)	
G Trumbull		(Resigned 24 September 1999)	
W Gorman	Alternate to G Trumbull	(Resigned 24 September 1999)	
P Batchelor		(Appointed 23 November 1999)	
P Johnson	Alternate to P Batchelor	(Appointed 23 November 1999)	
M Lund		(Appointed 27 January 2000)	
R Gormley		(Resigned 11 February 2000)	
D Legge	Company Secretary	(Resigned 23 March 2000)	
P Gram	Company Secretary	(Appointed 23 March 2000)	

The following directors held shares in the company as follows:

At 31 December 1999 & 1998

Gordon McCallum	80,770 Executive Convertible Shares of 0.1p
Sir Richard Branson	994,059 Virgin A Ordinary Shares of 0.1p
Sir Richard Branson	68,669 Virgin Convertible Shares of 0.1p
Stephen Murphy	92,308 Executive Convertible Shares of 0.1p
Rowan Gormley	750,000 Executive Convertible Shares of 0.1p

In addition Sir Richard Branson and/or members of his family are beneficiaries under certain trusts holding 13,036,709 Virgin A Ordinary shares and 900,563 Virgin Convertible Ordinary shares in the company.

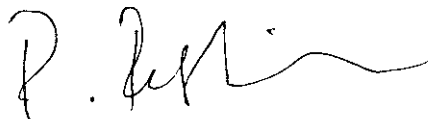
Virgin Direct (2) Limited

DIRECTORS' REPORT (continued)

YEAR 2000 COMPLIANCE

The costs of Year 2000 compliance are estimated at £268,000 in the year. No major systems errors had been reported at the date the accounts were signed.

On behalf of the Board,



Dr P Pester
Group Finance Director

Virgin Direct (2) Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Virgin Direct (2) Limited

REPORT OF THE AUDITORS

We have audited the accounts on pages 7 to 18, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 12.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
London

23 March 2000

Virgin Direct (2) Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 1999

		Year 1999 £'000	Year 1999 £'000	15 months ended 31 December 1998 £'000	15 months ended 31 December 1998 £'000
	Notes				
TURNOVER: Group and share of joint ventures		3,347		372	
Less: share of joint ventures' turnover		<u>(3,286)</u>		<u>(363)</u>	
GROUP TURNOVER	2)		61		9
Operating Expenses			(1,829)		(409)
OPERATING LOSS	3)		<u>(1,768)</u>		<u>(400)</u>
SHARE OF OPERATING LOSS IN JOINT VENTURE			(7,036)		(9,176)
TOTAL OPERATING LOSS			<u>(8,804)</u>		<u>(9,576)</u>
Interest receivable					
Company		96		839	
Joint Venture		<u>83</u>	179	<u>290</u>	1,129
Loan interest payable - Company	13)		(699)		(473)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			<u>(9,324)</u>		<u>(8,920)</u>
Taxation					
Company	5)	(14)		-	
Joint Venture		<u>841</u>		-	
			827		-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION			<u>(8,497)</u>		<u>(8,920)</u>

All of the amounts above are in respect of continuing operations.

There are no recognised gains nor losses other than the loss for the period.

The historical cost loss for the period is no different to the loss for the period as reported above.

Virgin Direct (2) Limited

COMPANY PROFIT AND LOSS ACCOUNT for the year ended 31 December 1999

		Year 1999 £'000	15 months ended 31 December 1998 £'000
	Notes		
TURNOVER	2)	61	9
Operating Expenses		(1,829)	(409)
OPERATING LOSS	3)	<u>(1,768)</u>	<u>(400)</u>
Interest receivable		96	839
Loan interest payable	13)	(699)	(473)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(2,371)</u>	<u>(34)</u>
Taxation	5)	(14)	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		<u><u>(2,385)</u></u>	<u><u>(34)</u></u>

All of the amounts above are in respect of continuing operations.

There are no recognised gains nor losses other than the loss for the period.

The historical cost loss for the period is no different to the loss for the period as reported above.

Virgin Direct (2) Limited

CONSOLIDATED BALANCE SHEET at 31 December 1999

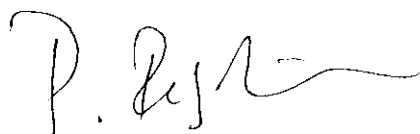
	Notes	1999 £'000	1999 £'000	1998 £'000	1998 £'000
FIXED ASSETS					
Intangible assets	7)		4,102		4,332
Tangible assets	8)		163		
Investment in joint venture	9)				
<i>Share of assets</i>					
Share of fixed assets		1,633		1,169	
Share of current assets		2,658		1,478	
		<u>4,291</u>		<u>2,647</u>	
<i>Share of gross liabilities</i>					
Liabilities due within one year or less		<u>(1,789)</u>		<u>(533)</u>	
			2,502		2,114
Other Investments	9)		<u>17,000</u>		<u>4,800</u>
			<u>23,767</u>		<u>11,246</u>
CURRENT ASSETS					
Debtors	10)		368		9
Cash at Bank			<u>19</u>		<u>6,341</u>
			<u>387</u>		<u>6,350</u>
CREDITORS : amounts falling due within one year					
	11)		(1,673)		(17)
NET CURRENT ASSETS					
			<u>(1,286)</u>		<u>6,333</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
			22,481		17,579
CREDITORS : amounts falling due after more than one year					
	12)		(20,297)		(6,898)
			<u>2,184</u>		<u>10,681</u>
CAPITAL AND RESERVES					
Called up share capital	13)		31		31
Share premium	14)		19,570		19,570
Profit and loss account	14)		(17,417)		(8,920)
EQUITY SHAREHOLDERS' FUNDS					
			<u>2,184</u>		<u>10,681</u>

Virgin Direct (2) Limited

COMPANY BALANCE SHEET at 31 December 1999

	Notes	1999 £'000	1998 £'000
FIXED ASSETS			
Intangible assets	7)	4,102	4,332
Tangible assets	8)	163	-
Investment in joint venture	9)	17,500	11,000
Other Investments	9)	17,000	4,800
		<u>38,765</u>	<u>20,132</u>
CURRENT ASSETS			
Other debtor	10)	368	9
Cash at Bank		19	6,341
		<u>387</u>	<u>6,350</u>
CREDITORS : amounts falling due within one year	11)	(1,673)	(17)
NET CURRENT ASSETS		<u>(1,286)</u>	<u>6,333</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		37,479	26,465
CREDITORS : amounts falling due after more than one year	12)	(20,297)	(6,898)
		<u>17,182</u>	<u>19,567</u>
CAPITAL AND RESERVES			
Called up share capital	13)	31	31
Share premium	14)	19,570	19,570
Profit and loss account	14)	(2,419)	(34)
EQUITY SHAREHOLDERS' FUNDS		<u>17,182</u>	<u>19,567</u>

The financial statements on pages 8 to 18 were approved by The Board of Directors on 23 March 2000



Dr P Pester
Group Finance Director

Virgin Direct (2) Limited

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 1999

	Notes	1999 £'000	1998 £'000
CASH OUTFLOW FROM OPERATING ACTIVITIES	15a)	(41)	(124)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Bank interest receivable and sundry income		96	839
Interest Paid	12)	-	(75)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		96	764
TAXATION			
Corporation tax paid		(14)	-
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets	8)	(363)	-
Payments to acquire intangible fixed assets	7)	-	(4,600)
Payments to increase investment in joint venture	9)	(6,500)	(11,000)
Payments to acquire investments	9)	(12,200)	(4,800)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(19,063)	(20,400)
NET CASH OUTFLOW BEFORE FINANCING		<u>(19,022)</u>	<u>(19,760)</u>
FINANCING			
Issue of ordinary share capital	13)	-	19,601
Net movement in long term borrowings	15b)	12,700	6,500
NET CASH OUTFLOW FROM FINANCING		12,700	26,101
INCREASE IN CASH	15b)	<u>(6,322)</u>	<u>6,341</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
	Notes	£'000	£'000
Increase in cash		(6,322)	6,341
Cash inflow from increase in loans		(12,700)	(6,500)
Change in net debt arising from cash flows	15b)	<u>(19,022)</u>	<u>(159)</u>
Accrued Interest		(699)	(398)
MOVEMENT IN NET DEBT		<u>(19,721)</u>	<u>(557)</u>
NET DEBT AT 31 DECEMBER 1998	15b)	(557)	-
NET DEBT AT 31 DECEMBER 1999	15b)	<u>(20,278)</u>	<u>(557)</u>

Virgin Direct (2) Limited

NOTES TO THE ACCOUNTS

at 31 December 1999

1 ACCOUNTING POLICIES

Basis of preparation

The accounts have been prepared under the historical cost convention of accounting and in accordance with applicable accounting standards.

Consolidation basis

The accounts consolidate the accounts of Virgin Direct (2) Limited and its joint venture undertaking drawn up to 31st December 1999.

Investments

Investments are stated at cost.

Deferred taxation

Deferred taxation is calculated using the liability method on all timing differences, but is only provided for where the amount is likely to become payable in the foreseeable future.

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 appropriate residual value over their estimated useful lives. Amortisation is charged from the date of acquisition. The time period being used is 20 years.

Tangible fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost, together with any 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. The time periods being used is 4 years for all fixed assets.

Development expenditure

Expenditure on specific projects developing software and processes for the company is written off as incurred.

Operating leases

Rentals payable under operating lease contract.

Provisioning

Specific bad debt provisions are recognised in line with standard Royal Bank of Scotland policy, that is, after a defined period of account management and subsequent transfer of administration to Retail Credit Services.

Television advertisement production costs

Television advertisement production costs have been amortised over the expected useful life of those advertisements on a straight line basis.

Virgin Direct (2) Limited

NOTES TO THE ACCOUNTS at 31 December 1999

2 TURNOVER

Turnover is attributable to one continuing activity, the royalties derived from the sale of Virgin Banking related products.

3 OPERATING LOSS

	<u>1999</u> £'000	<u>1998</u> £'000
Operating loss is stated after charging:		
Auditors' remuneration	24	12
Depreciation of owned fixed assets	298	-

4 DIRECTORS EMOLUMENTS

	<u>1999</u> £'000	<u>1998</u> £'000
Payments to third parties to obtain the services of a director	<u>237</u>	<u>-</u>

The emoluments of the highest paid director was £237,000.

5 TAXATION

<i>Company</i>	<u>1999</u> £'000	<u>1998</u> £'000
Adjustment of prior year provision	<u>14</u>	<u>-</u>
<i>Joint Venture</i>		
Consortium Relief	<u>(841)</u>	<u>-</u>
Group relief is taken where available and is paid for in full.		

6 DEFERRED TAXATION

No adjustment for the effects of deferred taxation has been included in the accounts. The deferred taxation asset not included in the accounts, in accordance with the accounting policy is as follows:

	<u>1999</u> £'000	<u>1998</u> £'000
Losses for taxation purposes carried forward	456	-
Acquisition costs	(10)	-
Deferred taxation asset	<u>446</u>	<u>-</u>

Virgin Direct (2) Limited

NOTES TO THE ACCOUNTS at 31 December 1999

7 INTANGIBLE FIXED ASSETS

	Trademark £'000
Cost:	
At 1 January 1999	4,600
Additions	-
Disposals	-
At 31 December 1999	<u>4,600</u>
Amortisation	
At 1 January 1999	268
Charge for the period	230
At 31 December 1999	<u>498</u>
Net book value at 31 December 1999	<u><u>4,102</u></u>
Net book value at 31 December 1998	<u><u>4,332</u></u>

The trademark, acquired from Virgin Enterprises Limited, represents the right to market the 'Virgin' brand in relation to banking type products worldwide. This is being amortised over the directors' estimate of its useful economic life of 20 years.

8 TANGIBLE FIXED ASSETS

	Computer Equipment £'000
Cost:	
At 1 January 1999	-
Additions	526
Disposals	(363)
At 31 December 1999	<u>163</u>
Depreciation	
At 1 January 1999	-
Charge for the period	68
Disposals	(68)
At 31 December 1999	<u>-</u>
Net book value at 31 December 1999	<u><u>163</u></u>

Virgin Direct (2) Limited

NOTES TO THE ACCOUNTS at 31 December 1999

9 INVESTMENTS

Company

Virgin Direct (2) Limited held as at 31 December 1999 the following investments:-

	1999 £'000	1998 £'000
Virgin Direct Personal Finance Limited	17,500	11,000
Royal Bank of Scotland plc - 17,000,000 Perpetual Zero Coupon Preference Shares of £1.	17,000	4,800

The investment in Virgin Direct Personal Finance Limited represents 49.99% of the company's issued share capital.

Consolidated

Virgin Direct (2) Limited has the following share of the net assets of its joint venture, Virgin Direct Personal Finance Ltd:-

	£'000
As At 1st January 1999	2,114
Share of new capital issued by joint venture	6,500
Share of loss retained by joint venture	(6,112)
As At 31st December 1999	2,502

10 DEBTORS

	1999 £'000	1998 £'000
Trade debtors	339	9
Prepayments and accrued income	29	-
	368	9

11 CREDITORS: amounts falling due within one year

	1999 £'000	1998 £'000
Accruals and deferred income	1,673	17
	1,673	17

12 CREDITORS: amounts falling due after more than one year

	1999 £'000	1998 £'000
Loans from shareholders	20,297	6,898

The interest payable on the above loans in the period is £699,000 (1998 - £473,000).

The balance of £20.3 million is owed to AMP (UK) plc and includes advances of £12.7 million made during the year and £1.1 million interest accrued. The loan facility (excluding interest) is £225 million and is repayable by November 2007 and attracts interest at 100 basis points above 3 month LIBOR.

Virgin Direct (2) Limited

NOTES TO THE ACCOUNTS at 31 December 1999

13 SHARE CAPITAL

Class	Authorised 1999 No.	Allotted, called up & fully paid 1999 No.	Allotted, called up & fully paid 1999 £	Authorised 1998 No.	Allotted, called up & fully paid 1998 No.	Allotted, called up & fully paid 1998 £
Virgin A Ordinary shares of 0.1p each	14,030,768	14,030,768	14,031	14,030,768	14,030,768	14,031
Virgin B Ordinary shares of 0.1p each	50,000,000	-	-	50,000,000	-	-
Virgin Convertible Ordinary shares of 0.1p each	969,232	969,232	969	969,232	969,232	969
Exec. Convertible Ordinary shares of 0.1p each	969,232	969,232	969	969,232	969,232	969
AMP A Ordinary shares of of 0.1p each	65,000,000	15,000,000	15,000	65,000,000	15,000,000	15,000
AMP B Ordinary shares 0.1p each	50,000,000	-	-	50,000,000	-	-
Deferred ordinary shares of 0.1p each	2,530,768	-	-	2,530,768	-	-
	<u>183,500,000</u>	<u>30,969,232</u>	<u>30,969</u>	<u>183,500,000</u>	<u>30,969,232</u>	<u>30,969</u>

Rights of classes of shares

Deferred shares

Deferred shares entitle the holders to 0.1% of any profits which the Company may determine to distribute as a dividend from time to time. This is to be paid in priority over other dividend entitlements (See below). The shares do not confer the right to receive notice of, to attend, or to vote at any General Meeting of the Company and will be repaid in priority where surplus assets exist following liquidation.

A and B shares (all classes)

1 Dividend rights

Any dividend declared (after payment of dividends on deferred shares) shall be divided between the A and B shareholders in proportion to the number of shares in issue. The A dividend shall be split equally between the AMP A shareholders, and the Virgin A shareholders.

The Virgin B and AMP B shares rank equally for the purpose dividend distribution.

2 Voting rights

All A and B shareholders are entitled to receive notice of, to attend and vote at all general meetings of the Company. On a show of hands, each member who is an A or B shareholder is entitled to one vote. On a poll, the voting rights are divided between the A and B shareholders in proportion to the number of shares in issue. As with the dividends, the A voting rights are split equally between AMP A and Virgin A shareholders.

The Virgin B and AMP B shares rank equally for the purpose of voting.

Virgin Direct (2) Limited

NOTES TO THE ACCOUNTS at 31 December 1999

13 SHARE CAPITAL (Continued)

Rights of classes of shares (Continued)

Convertible shares

1 Dividend rights:

The Virgin Convertible shares rank equally with the Virgin ordinary shares for the purpose of dividend distribution. The Executive Convertible shares do not confer the rights to any profits which the company may determine to distribute.

2 Voting rights:

The Virgin Convertible shares rank equally with the Virgin A shares for the purpose of voting. The Executive Convertible shares do not confer the right to receive notice of or to attend or vote at any General Meeting of the Company.

All Classes

Return of capital on a winding up:

After payment of capital of the deferred shares and the Executive Convertible shares, any remaining assets shall be divided between the A and B shareholders in proportion to the number of shares in issue. The capital attributable to the A shares shall be divided equally between the AMP and the Virgin shareholders.

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

Company

	Share capital £'000	Share premium £'000	Profit & loss £'000	Total £'000
At 1 January 1999	31	19,570	(34)	19,567
Result for the year	-	-	(2,385)	(2,385)
	<u>31</u>	<u>19,570</u>	<u>(2,419)</u>	<u>17,182</u>

There are no non-equity interests in the holding company.

Consolidated

	Share capital £'000	Share premium £'000	Profit & loss £'000	Total £'000
At 1 January 1999	31	19,570	(8,920)	10,681
Result for the year	-	-	(8,497)	(8,497)
	<u>31</u>	<u>19,570</u>	<u>(17,417)</u>	<u>2,184</u>

Virgin Direct (2) Limited

NOTES TO THE ACCOUNTS
at 31 December 1999

15 NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of operating loss to net cash outflow from operating activities	1999		1998	
	£'000		£'000	
Operating loss	(1,768)		(400)	
Amortisation of intangible fixed assets	298		268	
(Increase) in operating debtors and prepayments	(94)		(9)	
Loss on disposal of fixed assets	30		-	
Increase in operating creditors and accruals	1,493		17	
Net cash outflow from operating activities	(41)		(124)	
b) Analysis of net debt				
	At 31-Dec 1998 £'000	Cash Flow £'000	Other £'000	At 31-Dec 1999 £'000
Cash at bank and in hand	6,341	(6,322)	-	19
Long term loans	(6,898)	(12,700)	(699)	(20,297)
	(557)	(19,022)	(699)	(20,278)

16 RELATED PARTY TRANSACTIONS

Virgin Direct (2) Limited received income of £11,000 from Virgin Direct Personal Finance Limited and £50,000 from Virgin Direct Limited as payment for use of the trademark.

Loan interest was payable to shareholders of the Company as detailed in note 12.

17 CAPITAL COMMITMENTS

There were no capital commitments at the balance sheet date.