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CHALLENGER (NORWICH) LIMITED

Report and Accounts

31 December 2002



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Challenger (Norwich) Limited

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Challenger (Norwich) Limited

Registered No. 3427512

EXECUTIVE DIRECTORS

Dr P Pester

P Catchpole

SECRETARY

P Gram

AUDITORS

Ernst & Young LLP

Rolls House

7 Rolls Buildings

Fetter Lane

London EC4A 1NH

BANKERS

HSBC Bank plc

8 Canada Square

London E14 5HQ

REGISTERED OFFICE

Discovery House

Whiting Road

Norwich NR4 6EJ

Challenger (Norwich) Limited

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year ended 31 December 2002.

RESULTS AND DIVIDENDS

The company did not trade throughout 2002. The directors do not recommend the payment of any dividends.

DIRECTORS AND THEIR INTERESTS

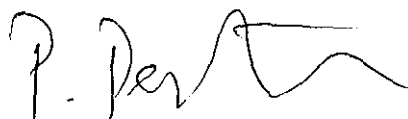
No changes to directors occurred during the year.

None of the directors who held office at the end of the year had any disclosable interests in the shares of the company, or other group companies.

AUDITORS

A resolution to reappoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the Board



Dr P Pester
Director
15 May 2003

Challenger (Norwich) Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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 group 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.

Challenger (Norwich) Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHALLENGER (NORWICH) LIMITED

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 13. These financial statements have been prepared on the basis of 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst + Young LLP

Ernst & Young LLP
Registered Auditor
London
15 May 2003

Challenger (Norwich) Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2002

	Notes	2002 £000	2001 £000
TURNOVER	2	-	253
Operating expenses		-	(13,498)
OPERATING LOSS	3	-	(13,245)
Profit on disposal of fixed asset investments	4	-	56,886
Profit on disposal of trade and assets	4	-	266
		-	57,152
PROFIT ON ORDINARY ACTIVITIES BEFORE INVESTMENT INCOME, INTEREST AND TAXATION		-	43,907
Other interest receivable and similar income		-	103
Interest payable and similar charges		-	(2,061)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		-	41,949
Taxation	6	-	1,675
RETAINED PROFIT FOR THE YEAR		-	43,624

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

There were no other recognised gains or losses in the year, other than the result for the year as reported above.

The accounting policies and notes on pages 7 to 11 form an integral part of these accounts.

Challenger (Norwich) Limited

BALANCE SHEET

at 31 December 2002

	<i>Notes</i>	<i>2002</i> <i>£000</i>	<i>2001</i> <i>£000</i>
CURRENT ASSETS			
Other debtors	9	79,086	79,086
Cash at bank		-	-
		<u>79,086</u>	<u>79,086</u>
CREDITORS: amounts falling due within one year		-	-
NET CURRENT ASSETS		<u>79,086</u>	<u>79,086</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>79,086</u>	<u>79,086</u>
CREDITORS: amounts falling due after more than one year		-	-
		<u>79,086</u>	<u>79,086</u>
CAPITAL AND RESERVES			
Called up share capital	10	83	83
Share premium	11	71,758	71,758
Profit and loss account	11	7,245	7,245
EQUITY SHAREHOLDERS' FUNDS		<u>79,086</u>	<u>79,086</u>

The accounts on pages 5 to 11 were approved by the Board of Directors on 15 May 2003.



Dr P Pester
Director

Challenger (Norwich) Limited

NOTES TO THE ACCOUNTS

at 31 December 2002

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.

2. TURNOVER

Turnover arises from fees earned for the sale of financial service products on behalf of product providers via the Internet and royalties derived from the sale of Virgin Banking related products. All turnover is derived from the UK.

	2002 £000	2001 £000
Fees earned	-	243
Royalties receivable	-	10
	-	253

3. OPERATING LOSS

	2002 £000	2001 £000
Operating loss is stated after charging:		
Auditors' remuneration		
- audit services	-	-
- other services	-	-
Depreciation of owned fixed assets	-	814

During 2002, all amounts payable to the auditors have been charged to Virgin Money Management Services Limited, a fellow subsidiary undertaking, and are disclosed in the accounts of that company.

4. EXCEPTIONAL ITEMS

	2002 £000	2001 £000
Recognised below operating loss:		
Profit on sale of investment in Virgin Money Personal Finance Limited	-	56,886
Profit on sale of trade and assets	-	266
	-	57,152

Challenger (Norwich) Limited

NOTES TO THE ACCOUNTS at 31 December 2002

5. DIRECTORS' EMOLUMENTS

	2002 £000	2001 £000
Emoluments	-	24
Payments to third parties to obtain the services of a director	-	78
	-	102

6. TAXATION

	2002 £000	2001 £000
Consortium relief	-	1,675

7. EMPLOYEE INFORMATION

The company did not directly employ any staff during the year.

	2002 £000	2001 £000
Wages and salaries costs	-	1,798
Social security costs	-	158
	-	1,956

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

	2002 No.	2001 No.
Marketing & Sales	-	32
Infrastructure	-	15
Site Development	-	42
Other	-	19
	-	108

8. DEFERRED TAXATION

No adjustment for the effects of deferred taxation has been included in the accounts. The potential deferred tax asset in respect of losses which has not been recognised under the Company's accounting policy is £484,263 (2001: £484,263).

9. DEBTORS

2002 £000	2001 £000
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Challenger (Norwich) Limited

NOTES TO THE ACCOUNTS at 31 December 2002

Amounts due from parent undertaking	79,086	79,086
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10. SHARE CAPITAL

Class	Authorised 2002 No.	Allotted, called up and fully paid 2002 No.	Allotted, called up and fully paid 2002 £	Authorised 2001 No.	Allotted, called up and fully paid 2001 No.	Allotted, called up and fully paid 2001 £
Virgin A Ordinary shares of 0.1p each	14,111,538	14,111,538	14,112	14,111,538	14,111,538	14,112
Virgin B Ordinary shares of 0.1p each	50,000,000	—	—	50,000,000	—	—
Virgin Convertible Ordinary shares of 0.1p each	888,462	888,462	888	888,462	888,462	888
Exec. Convertible Ordinary shares of 0.1p each	888,462	888,462	888	888,462	888,462	888
AMP A Ordinary shares of 0.1p each	70,000,000	67,240,000	67,240	70,000,000	67,240,000	67,240
AMP B Ordinary shares of 0.1p each	50,000,000	—	—	50,000,000	—	—
Deferred Ordinary shares of 0.1p each	2,611,538	80,770	81	2,611,538	80,770	81
	188,500,000	83,209,232	83,209	188,500,000	83,209,232	83,209

Rights of classes of shares

Deferred shares

Deferred shares entitle the holders to a 0.1% share of any profits that 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 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 of 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

Challenger (Norwich) Limited

NOTES TO THE ACCOUNTS

at 31 December 2002

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.

10. SHARE CAPITAL (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 Executive Convertible shares, any remaining assets shall be divided between 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.

11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 1 January 2002	83	71,758	7,245	79,086
Result for the year	-	-	-	-
At 31 December 2002	83	71,758	7,245	79,086

Challenger (Norwich) Limited

NOTES TO THE ACCOUNTS

at 31 December 2002

12. RELATED PARTY TRANSACTIONS

The company has undertaken transactions with related parties as shown below:

	2002 £000	2001 £000
Virgin Money Management Services Limited		
Payable for services under development contract	-	(12,668)
Referral fees receivable	-	169
Outstanding creditor at 31 December	-	-
Virgin Money Personal Finance Limited		
Receivable for use of the Virgin trademark	-	9
Outstanding debtor at 31 December	-	-
Virgin Enterprises Limited		
Payable for use of the Virgin trademark	-	(16)
Outstanding creditor at 31 December	-	-

Virgin Money Management Services Limited is wholly owned by Virgin Money Group Limited. The shareholders of Virgin Money Group Limited were the same as those of this company until 27th July 2002. No services were provided by Virgin Money Management Services Limited after this date.

Virgin Money Personal Finance Limited was a joint venture with Royal Bank of Scotland plc. Fees for use of the Virgin trademark were receivable by the company until the trade and assets of the business were sold in July 2002.

Virgin Enterprises Limited is a subsidiary of one of the shareholders of Challenger (Norwich) Limited. Fees for use of the Virgin trademark were payable to Virgin Enterprises Limited until the trade and assets of the business were sold in July 2002.

13. ULTIMATE PARENT COMPANY

The company's ultimate parent undertaking is Virgin Money Group Limited which is incorporated in Great Britain. Virgin Money Group Limited has included the company in its group accounts, copies of which are available from Companies House, Crown Way, Cardiff CF14 3UZ.