

3427512

# **Virgin Direct (2) Limited**

## **Report and Accounts**

31 December 1998



## Virgin Direct (2) Limited

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### ANNUAL REPORT AND ACCOUNTS

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## **Virgin Direct (2) Limited**

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Registered No. 3427512

### **DIRECTORS**

#### **Executive Directors:**

J A Gadhia  
R Gormley (Chief Executive Officer)  
M King

#### **Non-Executive Directors:**

R Branson  
T Thompson  
W Gorman  
G Trumbull  
G McCallum  
S Murphy  
M Bates

### **SECRETARY**

D Legge

### **AUDITORS**

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

### **BANKERS**

Midland Bank plc  
City of London Corporate Office  
PO Box 125  
27 - 32 Poultry  
London EC2P 0NH

### **REGISTERED OFFICE**

Discovery House  
Whiting Road  
Norwich NR4 6EJ

# Virgin Direct (2) Limited

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## DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 1998

The directors present their annual report and the audited accounts for the first accounting period from 2 September 1997 to 31 December 1998.

### INCORPORATION AND CHANGE OF NAME

The company was incorporated on 2 September 1997 as Extrapoll Limited. The company changed its name to Virgin Direct (2) Limited on 15 October 1997.

### REGISTERED OFFICE

The company was incorporated with a Registered Office at 1 Mitchell Lane, Bristol, BS1 6BU. The company changed its Registered Office to Discovery House, Whiting Road, Norwich NR4 6EJ on 15 October 1997.

### SHARE CAPITAL

The company was incorporated with an authorised share capital of 1,000 Ordinary Shares of £1 each and two Ordinary Shares of £1 each were issued and fully paid up.

On 15 October 1997 the two issued Ordinary Shares and the 998 unissued Ordinary Shares were sub-divided into 1,000,000 Ordinary Shares of 0.1p each.

On 15 October 1997 the authorised share capital was increased to £16,000 by the creation of an additional 15,000,000 Ordinary Shares of 0.1p each ranking *pari passu* with the existing Ordinary Shares and 967,232 Ordinary Shares of 0.1p each were issued at par.

On 16 October 1997 the unissued share capital of the company was redesignated as follows:

- (i) 14,061,536 Virgin ordinary shares of 0.1p each (*Virgin Ordinary Shares*); and
- (ii) 969,232 Virgin convertible shares of 0.1p each (*Virgin Convertible Shares* and, together with the Virgin Ordinary Shares, *Virgin Shares*);

and that the 969,232 Ordinary Shares of 0.1p each be redesignated as an executive convertible share of 0.1p each.

On 17 October 1997 969,232 Virgin Convertible Shares of 0.1p each and 14,030,768 Virgin Ordinary Shares of 0.1p each were issued for a cash consideration of 3.067p per share.

On 21 November 1997 the 30,768 unissued Virgin ordinary shares were redesignated as AMP A ordinary shares and the authorised share capital was increased by the creation of the following:

64,969,232	AMP Ordinary A Shares of 0.1p each
50,000,000	AMP Ordinary B Shares of 0.1p each
50,000,000	Virgin Ordinary B Shares of 0.1p each
2,530,768	Deferred Ordinary Shares of 0.1p each

On 24 November 1997 15,000,000 AMP Ordinary A Shares of 0.1p each were issued for a cash consideration of £1 per share.

### RESULTS AND DIVIDENDS

The results for the period are set out on pages 8 and 9. The directors do not recommend the payment of a dividend.

# Virgin Direct (2) Limited

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## DIRECTORS' REPORT (continued)

### PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company is one half of a joint venture, Virgin Direct Personal Finance Limited, with The Royal Bank of Scotland plc. The company is a holding company and 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.

The viability of the product was successfully established through a pilot campaign to existing Virgin Direct customers in late 1997. The product has since been made available to the general public through a press advertising campaign starting in May 1998 and, more recently, a television advertising campaign. Having established the product in the market and the capability to administer it, the intention is to increase volumes during 1999.

### FIXED ASSETS

Details of the company's share of the tangible fixed assets of the joint venture are shown in Note 9 to the accounts.

### DIRECTORS AND THEIR INTERESTS

The names of the current directors are listed on page 2

Instant Companies Limited was appointed sole director of the company on 2 September 1997 on formation of the company. The following changes have taken place since the date of incorporation:

<u>Name</u>	<u>Date Appointed</u>	<u>Date Resigned</u>
Instant Companies Limited	2 September 1997	22 September 1997
Jim Stones	22 September 1997	14 October 1997
Jonathan Angell	22 September 1997	14 October 1997
Gordon McCallum	14 October 1997	
Stephen Murphy	14 October 1997	
George Trumbull III	21 November 1997	
Jonathan Schwartz	21 November 1997	12 August 1998
Richard Branson	21 November 1997	
Jayne-Anne Gadhia	21 November 1997	
William Gorman	21 November 1997	
Rowan Gormley	21 November 1997	
Michael King	21 November 1997	
Trevor Thompson	12 August 1998	
Sir Malcolm Bates	19 January 1999	

The following directors held shares in the company as follows:

	<u>On appointment</u>	<u>At 31 December 1998</u>
Gordon McCallum	1 Ordinary Share of £1	80,770 Executive Convertible Shares of 0.1p
Richard Branson	994,059 Virgin A Ordinary Shares of 0.1p	994,059 Virgin A Ordinary Shares of 0.1p
Richard Branson	68,669 Virgin Convertible Shares of 0.1p	68,669 Virgin Convertible Shares of 0.1p
Stephen Murphy	1 Ordinary Share of £1	92,308 Executive Convertible Shares of 0.1p
Rowan Gormley	750,000 Executive Convertible Shares of 0.1p	750,000 Executive Convertible Shares of 0.1p

# Virgin Direct (2) Limited

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## DIRECTORS' REPORT (continued)

### YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

A company-wide programme, designed to address the impact of the Year 2000 on our business, has been commissioned by the Board and is under way. Resources have been allocated and the Board receives regular reports on progress.

A significant risk analysis has been performed to determine the impact of the issue on all our activities. From this, prioritised action plans have been developed which are designed to address the key risks in advance of critical dates and without disruption to the underlying business processes. Priority is given to those systems which could cause a significant financial or legal impact on the company's business if they were to fail. The plan also includes a requirement for the testing of systems changes, involving the participation of users.

The risk analysis also considers the impact on our business of Year 2000 related failures by our significant suppliers (including computer bureaux) and customers. In appropriate cases we have initiated formal communication with these other parties.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because at least some level of failure may still occur. However, the Board believes that it will achieve an acceptable state of readiness and has also provided resources to deal promptly with significant subsequent failures or issues that might arise.

All of the cost of implementing the action plans will be subsumed into the recurring activities of the departments involved. The total cost of modifications to our computer hardware and software is considered immaterial as the Year 2000 problem was already identified when the company commenced trading.

### AUDITORS

Messrs Ernst & Young were appointed as auditors and have indicated their willingness to continue in office. Resolutions to appoint them and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

On behalf of the Board,



R Gormley  
Managing Director

# Virgin Direct (2) Limited

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## 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

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## REPORT OF THE AUDITORS

We have audited the accounts on pages 8 to 20, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 13.

### Respective responsibilities of directors and auditors

As described on page 6 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

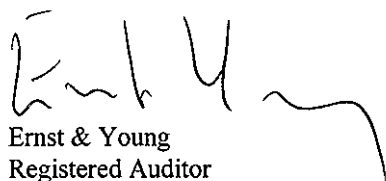
### Basis of opinion

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 and of the group as at 31st December 1998 and of the loss of the company and of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Registered Auditor

London

[date]





## Virgin Direct (2) Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT  
for the period from 2 September 1997 to 31 December 1998

	Notes	£000	Interests in joint venture £000	Total £000
<b>TURNOVER</b>	2)	9	363	372
Operating Expenses		(409)	(9,539)	(9,948)
<b>OPERATING LOSS</b>	3)	(400)	(9,176)	(9,576)
<b>SHARE OF OPERATING LOSS IN JOINT VENTURE</b>		(9,176)		
<b>TOTAL OPERATING LOSS</b>		(9,576)		
Interest receivable				
Company		839		
Joint Venture		290		
		1,129		
Loan interest payable - Company	14)	(473)		
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(8,920)		
Taxation	6)	0		
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		(8,920)		

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

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COMPANY PROFIT AND LOSS ACCOUNT  
for the period from 2 September 1997 to 31 December 1998

	Notes	£000
<b>TURNOVER</b>	2)	9
Operating Expenses		(409)
<b>OPERATING LOSS</b>	3)	<u>(400)</u>
Interest receivable		839
Loan interest payable	14)	(473)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>(34)</u>
Taxation	6)	0
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<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 1998

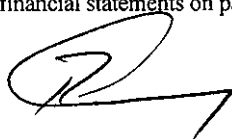
	Notes	£000	Interests in joint venture £000	Total £000
<b>FIXED ASSETS</b>				
Intangible assets	8)	4,332		4,332
Tangible assets	9)	0	1,169	1,169
Investment in joint venture	10)	2,114	(2,114)	0
Other Investments	10)	4,800		4,800
		<u>11,246</u>		<u>10,301</u>
<b>CURRENT ASSETS</b>				
Debtors	11)	9	280	289
Cash at Bank		<u>6,341</u>	<u>1,198</u>	<u>7,539</u>
		<u>6,350</u>	<u>1,478</u>	<u>7,828</u>
<b>CREDITORS : amounts falling due within one year</b>	12)	(17)	(533)	(550)
<b>NET CURRENT ASSETS</b>		<u>6,333</u>	<u>945</u>	<u>7,278</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>17,579</u>		<u>17,579</u>
<b>CREDITORS : amounts falling due after more than one year</b>	13)	(6,898)		(6,898)
		<u>10,681</u>		<u>10,681</u>
<b>CAPITAL AND RESERVES</b>				
Called up share capital	15)	31		
Share premium	16)	19,570		
Profit and loss account	16)	(8,920)		
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>10,681</u>		

## Virgin Direct (2) Limited

COMPANY BALANCE SHEET  
at 31 December 1998

	Notes	£000
<b>FIXED ASSETS</b>		
Intangible assets	8)	4,332
Investment in joint venture	9)	11,000
Other Investments	10)	4,800
		<u>20,132</u>
<b>CURRENT ASSETS</b>		
Other debtor	11)	9
Cash at Bank		<u>6,341</u>
		6,350
<b>CREDITORS : amounts falling due within one year</b>	12)	(17)
<b>NET CURRENT ASSETS</b>		<u>6,333</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		26,465
<b>CREDITORS : amounts falling due after more than one year</b>	13)	(6,898)
		<u>19,567</u>
<b>CAPITAL AND RESERVES</b>		
Called up share capital	15)	31
Share premium	16)	19,570
Profit and loss account	16)	(34)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>19,567</u>

The financial statements on pages 8 to 20 were approved by The Board of Directors on 26 May 1999



R. Gormley  
Managing Director

## Virgin Direct (2) Limited

### CONSOLIDATED STATEMENT OF CASH FLOWS for the period ended 31 December 1998

	Notes	£000	£000
<b>CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	18a)		(8,750)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Bank interest receivable and sundry income		1,129	
Interest Paid	14)	(75)	
<b>NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			1,054
<b>CAPITAL EXPENDITURE</b>			
Payments to acquire tangible fixed assets	9)	(1,466)	
Payments to acquire intangible fixed assets	8)	(4,600)	
Payments to acquire investments	10)	(4,800)	
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>			(10,866)
<b>NET CASH OUTFLOW BEFORE FINANCING</b>			(18,562)
<b>FINANCING</b>			
Issue of ordinary share capital	17)	19,601	
Net movement in long term borrowings	18b)	6,500	
<b>NET CASH OUTFLOW FROM FINANCING</b>			26,101
<b>INCREASE IN CASH</b>	18b)		<u>7,539</u>
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>			
	Notes		£000
Increase in cash			7,539
Cash inflow from increase in loans			(6,500)
Change in net debt arising from cash flows	18b)		<u>1,039</u>
Accrued Interest			(398)
<b>MOVEMENT IN NET DEBT</b>			<u>641</u>
<b>NET DEBT AT 2 SEPTEMBER 1997</b>	18b)		0
<b>NET DEBT AT 31 DECEMBER 1998</b>	18b)		<u>641</u>

# Virgin Direct (2) Limited

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## NOTES TO THE ACCOUNTS

at 31 December 1998

### 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 1998.

#### **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 leases are charged in the profit and loss account as they fall due under the 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

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NOTES TO THE ACCOUNTS  
at 31 December 1998

### 2. TURNOVER

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

#### Joint Venture

Turnover is attributable to one continuing activity, the marketing of the Virgin One Account.

### 3. OPERATING LOSS

	£000	Interests in joint venture £000
Operating loss is stated after charging:		
Auditors' remuneration	12	12
Depreciation of owned fixed assets	0	297
Operating lease rentals - Land and Buildings	0	84

### 4. DIRECTORS EMOLUMENTS

There were no directors' fees or emoluments payable during the period.

### 5. EMPLOYEE INFORMATION

	£000	Interests in joint venture £000
Wages and salary costs	0	656
Social security costs	0	69
	<u>0</u>	<u>725</u>

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

	No.	No.
Call Centre & Administration	0	70
Non Operational	0	24
	<u>0</u>	<u>93</u>

### 6. TAXATION

There were no tax charges for the current period.

## Virgin Direct (2) Limited

NOTES TO THE ACCOUNTS  
at 31 December 1998

### 7. 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:

	£000	Interests in joint venture £000
Losses for taxation purposes carried forward	0	2,025
Accelerated capital allowances in arrears/(advance) of depreciation	0	0
Deferred taxation asset	<u>0</u>	<u>2,025</u>

### 8. INTANGIBLE FIXED ASSETS

	Trademark £000
Cost:	
Additions	4,600
Disposals	0
At 31 December 1998	<u>4,600</u>
Amortisation	
Charge for the period	268
At 31 December 1998	<u>268</u>
Net book value at 31 December 1998	<u>4,332</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.



## Virgin Direct (2) Limited

NOTES TO THE ACCOUNTS  
at 31 December 1998

### 9. TANGIBLE FIXED ASSETS

	Interests in joint venture £000
	Computer Equipment etc
Cost:	
Additions	1,466
Disposals	0
At 31 December 1998	<u>1,466</u>
Depreciation; Charge for the period	297
At 31 December 1998	<u>297</u>
Net book value at 31 December 1998	<u><u>1,169</u></u>

### 10. INVESTMENTS

Virgin Direct (2) Limited held as at 31 December 1998 the following investments:-

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

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

### 11. DEBTORS

	£000	Interests in joint venture £000
Trade debtors	9	0
Other debtors	0	151
Prepayments and accrued income	0	129
	<u>9</u>	<u>280</u>

## Virgin Direct (2) Limited

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NOTES TO THE ACCOUNTS  
at 31 December 1998

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

	£000	Interests in joint venture £000
Trade creditors	0	462
Other creditors	0	71
Accruals and deferred income	17	0
	<u>17</u>	<u>533</u>

### 13. CREDITORS: amounts falling due after more than one year

	£000	Interests in joint venture £000
Loans from shareholders	<u>6,898</u>	<u>0</u>

The interest payable on the above loans in the period is £398k.

The balance of £6.9m owed to AMP (UK) plc includes advances of £6.5m made during the period and £398k interest accrued. The loan facility (excluding interest) is £225m and is repayable by November 2007 and attracts interest at 100 basis points above 3 month LIBOR.

### 14. LOAN INTEREST PAYABLE

During the period interest of £75K was paid on loans received from Virgin Trusts. The loans totalling £6m were granted on 17th October 1997 and were fully repaid in the period.

Interest payable on shareholder loans totalled £398k for the period and are fully detailed in note 13.

## Virgin Direct (2) Limited

NOTES TO THE ACCOUNTS  
at 31 December 1998

### 15. SHARE CAPITAL

Class	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
Virgin B Ordinary shares of 0.1p each	50,000,000	0	0
Virgin Convertible Ordinary shares of 0.1p each	969,232	969,232	969
Exec. Convertible Ordinary shares of 0.1p each	969,232	969,232	969
AMP A Ordinary shares of 0.1p each	65,000,000	15,000,000	15,000
AMP B Ordinary shares of 0.1p each	50,000,000	0	0
Deferred ordinary shares of 0.1p each	2,530,768	0	0
	<u>183,500,000</u>	<u>30,969,232</u>	<u>30,969</u>

Movements in, and other changes to, share capital during the period are shown in the directors' report.

#### Rights of classes of shares

##### Deferred shares

Entitles the holder to 0.1% of any profits which the Company may determine to distribute. This is to be paid in priority over other dividend entitlements.

The shares do not confer the right to receive notice of or to attend or vote at any General Meeting of the Company.

On return of capital on liquidation or otherwise the surplus assets of the Company shall be first applied in repaying the capital of the deferred shares.

##### 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 pari passu for the purpose dividend distribution.

2. Voting rights: All A and B shareholders are entitled to receive notice of and 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 as follows; voting rights shall be 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 pari passu for the purpose of voting.

##### Convertible shares

1. Dividend rights: The Virgin Convertible shares rank pari passu 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 pari passu 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.

## Virgin Direct (2) Limited

NOTES TO THE ACCOUNTS  
at 31 December 1998

### 16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share capital £000	Share premium £000	Profit & loss £000	Total £000
Share Capital Issued	31	19,570		19,601
Result for the year	0	0	(34)	(34)
	<u>31</u>	<u>19,570</u>	<u>(34)</u>	<u>19,567</u>
Shareholder funds attributable to Equity interests				<u>19,567</u>

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

### 17. NET CASH INFLOW FROM SHARE ISSUES

	1998 £000
Proceeds of issue of shares	19,601
Payments to redeem shares	0
	<u>19,601</u>

### 18. NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of operating loss to net cash outflow from operating activities	1998 £000
Operating loss	(9,576)
Depreciation of tangible fixed assets	297
Amortisation of intangible fixed assets	268
(Increase) in operating debtors and prepayments	(289)
Increase in operating creditors and accruals	550
Net cash outflow from operating activities	<u>(8,750)</u>

#### b) Analysis of net debt

	Cash Flow £000	Other £000	At 31 December 1998 £000
Cash at bank and in hand	7,539	0	7,539
Long term loans	(6,500)	(398)	(6,898)
	<u>1,039</u>	<u>(398)</u>	<u>641</u>

## **Virgin Direct (2) Limited**

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NOTES TO THE ACCOUNTS  
at 31 December 1998

**19. RELATED PARTY TRANSACTIONS**

The Company received income totalling £3k from its' joint venture and £6k from Virgin Direct Limited as payment for use of the trademark.

Loan interest was payable to shareholders of the Company as detailed in note 14.

**20. CAPITAL COMMITMENTS**

There were no capital commitments at the balance sheet date.