

3427512

CHALLENGER (NORWICH) LIMITED  
(FORMERLY VIRGINMONEY LIMITED)

Report and Accounts  
31 December 2001



Challenger (Norwich) Limited  
(formerly Virginmoney Limited)

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**Challenger (Norwich) Limited**  
**(formerly Virginmoney Limited)**

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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

City of London Corporate Office

PO Box 125

27 - 32 Poultry

London EC2P 2BX

**REGISTERED OFFICE**

Discovery House

Whiting Road

Norwich NR4 6EJ

Challenger (Norwich) Limited  
(formerly Virginmoney Limited)

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**DIRECTORS' REPORT**

The directors present their report and the audited accounts for the year ended 31 December 2001.

**RESULTS AND DIVIDENDS**

The retained profit for the year ended 31 December 2001 amounted to £43.6 million (2000 - £34.0 million loss). The directors do not recommend the payment of any dividends.

**CHANGE OF NAME**

On 27<sup>th</sup> July 2001 the company changed its name from Virginmoney Limited to Challenger (Norwich) Limited.

**CHANGE OF OWNERSHIP**

At 1<sup>st</sup> January 2001 the company was a joint venture between VDL Holdings Limited and AMP Virgin (Holdings) Limited. In July 2001, Royal Bank of Scotland plc purchased all of the share capital of the company. In August 2001, Virgin Money Group Limited (formerly Virgin Direct Limited) purchased all of the share capital of the company.

**PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS**

The company was incorporated in 1997 and developed a joint venture, Virgin Direct Personal Finance Limited, with Royal Bank of Scotland plc in relation to the marketing and administration of the Virgin *One* Account. In June 2000 the company launched an independent online financial services gateway linking customers and financial planning information, products and services from a community of providers who meet strict criteria on charges, service and performance.

In July 2001 the e-commerce business, trading as Virginmoney.com, was sold as a going concern, on arm's length terms, to Virgin Money Limited (formerly Virgin Direct 2 Limited), a newly incorporated subsidiary of Virgin Money Group Limited.

In August 2001 the company's investment in Virgin Direct Personal Finance Limited was sold to The Royal Bank of Scotland plc.

**DIRECTORS AND THEIR INTERESTS**

The following changes to directors occurred during the year:

S Bowker	Appointed 25 <sup>th</sup> January 2001 (Resigned 27 <sup>th</sup> July 2001)
T Wade	Appointed 25 <sup>th</sup> January 2001 (Resigned 27 <sup>th</sup> July 2001)
P Batchelor	Resigned 27 <sup>th</sup> July 2001
Sir Richard Branson	Resigned 27 <sup>th</sup> July 2001
W Gorman	Resigned 27 <sup>th</sup> July 2001
G McCallum	Resigned 27 <sup>th</sup> July 2001
Dr P Pester	Resigned 27 <sup>th</sup> July 2001 (Re-appointed 30 <sup>th</sup> October 2001)
J-A Gadhia	Resigned 27 <sup>th</sup> July 2001
Dunwilco 907	Appointed 27 <sup>th</sup> July 2001 (Resigned 8 <sup>th</sup> August 2001)
Dunwilco 908	Appointed 27 <sup>th</sup> July 2001 (Resigned 8 <sup>th</sup> August 2001)
P Anderson	Appointed 8 <sup>th</sup> August 2001 (Resigned 31 <sup>st</sup> October 2001)
P Catchpole	Appointed 8 <sup>th</sup> August 2001

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.

Challenger (Norwich) Limited  
(formerly Virginmoney Limited)

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DIRECTORS' REPORT

**AUDITORS**

On 28 June 2001, Ernst & Young, the company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. 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  
23 September 2002

Challenger (Norwich) Limited  
(formerly Virginmoney Limited)

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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.

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

We have audited the company's financial statements for the year ended 31 December 2001 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

### **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 2001 and of its profit 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  
23 September 2002

Challenger (Norwich) Limited  
(formerly Virginmoney Limited)

PROFIT AND LOSS ACCOUNT  
for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
<b>TURNOVER</b>	2	253	290
Operating expenses		(13,498)	(32,878)
Long term incentive scheme	4	-	(2,148)
<b>OPERATING LOSS</b>	3	(13,245)	(34,736)
Profit on disposal of fixed asset investments	4	56,886	-
Profit on disposal of trade and assets	4	266	-
		57,152	-
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INVESTMENT INCOME, INTEREST AND TAXATION</b>		43,907	(34,736)
Other interest receivable and similar income		103	371
Interest payable and similar charges	14	(2,061)	(2,420)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		41,949	(36,785)
Taxation	6	1,675	2,825
<b>RETAINED PROFIT/(LOSS) FOR THE YEAR</b>		43,624	(33,960)

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 8 to 15 form an integral part of these accounts.



Challenger (Norwich) Limited  
(formerly Virginmoney Limited)

BALANCE SHEET  
at 31 December 2001

	Notes	2001 £000	2000 £000
<b>FIXED ASSETS</b>			
Intangible assets	9	-	3,872
Tangible assets	10	-	3,951
Investment in joint venture	11	-	21,000
Other investments	11	-	35,000
		-	63,823
<b>CURRENT ASSETS</b>			
Other debtors	12	79,086	3,559
Cash at bank		-	4,452
		79,086	8,011
<b>CREDITORS: amounts falling due within one year</b>	13	-	(4,155)
<b>NET CURRENT ASSETS</b>		79,086	3,856
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		79,086	67,679
<b>CREDITORS: amounts falling due after more than one year</b>	14	-	(44,217)
		79,086	23,462
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	83	71
Share premium	16	71,758	59,770
Profit and loss account	16	7,245	(36,379)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		79,086	23,462

The accounts on pages 6 to 15 were approved by the Board of Directors on 23 September 2002.



Dr P Pester  
Director

Challenger (Norwich) Limited  
(formerly Virginmoney Limited)

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NOTES TO THE ACCOUNTS  
at 31 December 2001

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.

*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. Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

*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.

*Tangible fixed assets and depreciation*

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 over estimated useful lives as follows:

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

*Development expenditure*

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

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.

	2001 £000	2000 £000
Fees earned	243	268
Royalties receivable	10	22
	<hr/> 253	<hr/> 290
	<hr/> <hr/>	<hr/> <hr/>

**Challenger (Norwich) Limited**  
(formerly Virginmoney Limited)

**NOTES TO THE ACCOUNTS**  
at 31 December 2001

**3. OPERATING LOSS**

	2001	2000
	£000	£000
Operating loss is stated after charging:		
Auditors' remuneration		
- audit services	-	26
- other services	-	2
Depreciation of owned fixed assets	814	1,121
	<u>          </u>	<u>          </u>

During 2001, all amounts payable to the auditors have been charged to Virgin Money Management Services Limited (formerly Virgin Direct Management Services Limited), a fellow subsidiary undertaking, and are disclosed in the accounts of that company.

**4. EXCEPTIONAL ITEMS**

	2001	2000
	£000	£000
Recognised in arriving at operating loss:		
Long term incentive scheme costs:		
Payments to employees and former employees	-	(1,940)
Social security costs	-	(237)
Legal costs associated with the scheme	-	(81)
Contribution received from Virgin interests	-	110
	<u>          </u>	<u>          </u>
	-	(2,148)
Recognised below operating loss:		
Profit on sale of investment in Virgin Direct Personal Finance Limited	56,886	-
Profit on sale of trade and assets	266	-
	<u>          </u>	<u>          </u>
	57,152	(2,148)
	<u>          </u>	<u>          </u>

The exceptional items recognised below operating loss have no effect on the taxation charge for the year.

**5. DIRECTORS' EMOLUMENTS**

	2001	2000
	£000	£000
Emoluments	24	265
Payments to third parties to obtain the services of a director	78	556
	<u>          </u>	<u>          </u>
	102	821
	<u>          </u>	<u>          </u>

Challenger (Norwich) Limited  
(formerly Virginmoney Limited)

NOTES TO THE ACCOUNTS  
at 31 December 2001

6. TAXATION

	2001 £000	2000 £000
Adjustment of prior year provision	-	(6)
Consortium relief	1,675	2,831
	<u>1,675</u>	<u>2,825</u>

7. EMPLOYEE INFORMATION

The company did not directly employ any staff during the year. The services of individuals were obtained in exchange for payments made to Virgin Money Management Services Limited (formerly Virgin Direct Management Services Limited) – see Note 17. The following employee information relates to those individuals employed on the company's behalf by Virgin Money Management Services Limited.

	2001 £000	2000 £000
Wages and salaries costs	1,798	1,714
Social security costs	158	189
	<u>1,956</u>	<u>1,903</u>

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

	2001 No.	2000 No.
Marketing & Sales	32	11
Infrastructure	15	12
Site Development	42	19
Other	19	8
	<u>108</u>	<u>50</u>

8. DEFERRED TAXATION

No adjustment for the effects of deferred taxation has been included in the accounts. There are no deferred tax liabilities. The deferred taxation asset not included in the accounts, in accordance with the company's accounting policy is as follows:

	2001 £000	2000 £000
Losses for taxation purposes carried forward	-	5,577
Capital allowances in arrears of depreciation	-	2,592
Other short-term timing differences	-	176
	<u>-</u>	<u>8,345</u>
Deferred taxation asset	-	8,345

Losses arising in Challenger (Norwich) Limited transferred to Virgin Money Limited (formerly Virgin Direct 2 Limited) under s343 ICTA 1988 on the transfer of the business in July 2001.

Challenger (Norwich) Limited  
(formerly Virginmoney Limited)

NOTES TO THE ACCOUNTS  
at 31 December 2001

9. INTANGIBLE FIXED ASSETS

	<i>Trademark</i> £000
Cost:	
At 1 January 2001	4,600
Additions	-
Disposals	(4,600)
At 31 December 2001	-
Amortisation	
At 1 January 2001	728
Charge for the year	115
Disposals	(843)
At 31 December 2001	-
Net book value:	
At 31 December 2001	-
At 31 December 2000	3,872

10. TANGIBLE FIXED ASSETS

	<i>Leasehold Improvements</i> £000	<i>Office Equipment</i> £000	<i>Computer Equipment</i> £000	<i>Total</i> £000
Cost:				
At 1 January 2001	147	11	4,684	4,842
Additions	-	48	580	628
Disposals	(147)	(59)	(5,264)	(5,470)
At 31 December 2001	-	-	-	-
Depreciation:				
At 1 January 2001	8	3	880	891
Charge for the year	12	6	681	699
Disposals	(20)	(9)	(1,561)	(1,590)
At 31 December 2001	-	-	-	-
Net book value:				
At 31 December 2001	-	-	-	-
At 31 December 2000	139	8	3,804	3,951

Challenger (Norwich) Limited  
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NOTES TO THE ACCOUNTS  
at 31 December 2001

11. INVESTMENTS

The company held the following investments at 31 December:

	2001 £000	2000 £000
Virgin Direct Personal Finance Limited	-	21,000
Royal Bank of Scotland plc – Perpetual Zero Coupon Preference Shares of £1	-	35,000

The investment in Virgin Direct Personal Finance Limited represented 49.99% of the company's issued share capital and was sold in August 2001. The Perpetual Zero Coupon Preference Shares were redeemed at par as provided for under the terms of the Shareholders Agreements relating to Virgin Direct Personal Finance Limited.

	<i>VDPF Ltd</i> £000	<i>RBS plc</i> £000
At 1 January 2001	21,000	35,000
Additions	1,200	10,500
Disposals	(22,200)	(45,500)
At 31 December 2001	-	-

12. DEBTORS

	2001 £000	2000 £000
Amounts due from parent undertaking	79,086	-
Trade debtors	-	158
Consortium relief	-	2,831
Prepayments and accrued income	-	570
	79,086	3,559

13. CREDITORS: amounts falling due within one year

	2001 £000	2000 £000
Trade creditors	-	3,994
Accruals and deferred income	-	161
	-	4,155

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

	2001 £000	2000 £000
Loans from shareholders	-	44,217

The interest payable on the above loans in the year is £2,061,000 (2000 - £2,420,000).

Challenger (Norwich) Limited  
(formerly Virginmoney Limited)

NOTES TO THE ACCOUNTS  
at 31 December 2001

15. SHARE CAPITAL

<i>Class</i>	<i>Authorised 2001 No.</i>	<i>Allotted, called up and fully paid 2001 No.</i>	<i>Allotted, called up and fully paid 2001 £</i>	<i>Authorised 2000 No.</i>	<i>Allotted, called up and fully paid 2000 No.</i>	<i>Allotted, called up and fully paid 2000 £</i>
Virgin A Ordinary shares of 0.1p each	14,111,538	14,111,538	14,112	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	888,462	888,462	888	969,232	969,232	969
Exec. Convertible Ordinary shares of 0.1p each	888,462	888,462	888	969,232	969,232	969
AMP A Ordinary shares of 0.1p each	70,000,000	67,240,000	67,240	65,000,000	55,240,000	55,240
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	2,530,768	—	—
	188,500,000	83,209,232	83,209	183,500,000	71,209,232	71,209

The following allotments of shares occurred during the year:

80,770 Executive Convertible shares of 0.1p each were converted into an equal number of Virgin A Ordinary shares of 0.1p each.

80,770 Virgin Convertible shares of 0.1p each were converted into an equal number of Deferred Ordinary shares of 0.1p each.

12,000,000 AMP A Ordinary shares of 0.1p each were allotted and fully paid on 26<sup>th</sup> June 2001.

**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.

Challenger (Norwich) Limited  
(formerly Virginmoney Limited)

NOTES TO THE ACCOUNTS  
at 31 December 2001

15. SHARE CAPITAL (continued)

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 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.

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.

16. 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 2001	71	59,770	(36,379)	23,462
Issue of new share capital	12	11,988	-	12,000
Result for the year	-	-	43,624	43,624
At 31 December 2001	83	71,758	7,245	79,086



**Challenger (Norwich) Limited**  
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**NOTES TO THE ACCOUNTS**  
at 31 December 2001

**17. RELATED PARTY TRANSACTIONS**

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

	2001 £000	2000 £000
Virgin Money Management Services Limited		
Payable for services under development contract	(12,668)	(36,827)
Referral fees receivable	169	80
Outstanding creditor at 31 December	-	(3,994)
Virgin Direct Personal Finance Limited		
Receivable for use of the Virgin trademark	9	18
Outstanding debtor at 31 December	-	3
Virgin Enterprises Limited		
Payable for use of the Virgin trademark	(16)	(20)
Outstanding creditor at 31 December	-	(53)

Loan interest was payable to shareholders of the company as detailed in Note 14.

Virgin Money Management Services Limited (formerly Virgin Direct Management Services Limited) is wholly owned by Virgin Money Group Limited (formerly Virgin Direct Limited). The shareholders of Virgin Money Group Limited were the same as those of this company until 27<sup>th</sup> July 2001. No services were provided by Virgin Money Management Services Limited after this date.

Virgin Direct 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 2001.

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 2001.

**18. CAPITAL COMMITMENTS**

The company had capital commitments of £nil (2000 - £150,000) at the balance sheet date.

**19. ULTIMATE PARENT COMPANY**

The company's ultimate parent undertaking is Virgin Money Group Limited (formerly Virgin Direct 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.