

5087587

VIRGIN MONEY GROUP LIMITED

Annual Report

31 December 2004



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Virgin Money Group Limited

Registered No. 3087587

DIRECTORS AND OFFICERS

EXECUTIVE DIRECTORS

Dr P Pester
I Larkin

NON-EXECUTIVE DIRECTORS

S Murphy
G McCallum

SECRETARY

P Gram

AUDITORS

KPMG LLP
8 Salisbury Square
London EC4Y 8BB

BANKERS

HSBC Bank plc
8 Canada Square
London E14 5HQ

REGISTERED OFFICE

Discovery House
Whiting Road
Norwich NR4 6EJ

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITY

In the UK the Group has continued to act as a provider of Pensions, Personal Equity Plans, Individual Savings and Ordinary Long-Term Personal Insurance products, as distributor of Deposit Accounts and has continued to market a variety of online financial services such as Credit Cards and Loans. In 2004 a range of General Insurance products was launched. In Australia the product offering remained focused on credit cards.

RESULTS AND DIVIDENDS

The results for the year are set out on Page 6. The directors do not recommend the payment of a dividend (2003: £Nil).

REVIEW OF THE BUSINESS

In 2004 the Group launched a new range of General Insurance products in partnership with UK Insurance. This new venture is already meeting its targets. Sales of credit cards in the UK continued to be strong in 2004. This performance is all the more creditable, given continued fierce competition in this market. Funds under Management increased to £2.6bn (2003: £2.3bn) as a result of improved stock market performance, combined with another good year in terms of customer retention.

In Australia, the Group cemented its strong position in the credit card market with another successful year.

In August 2004, the Group disposed of its life subsidiary, generating proceeds of £33.7m. The Group will remain very active in this sector, though in future this will be under a partnership model, rather than as a product 'manufacturer'.

The Group became 100% owned by Virgin in April 2004 following the acquisition of HHG plc's 50% interest.

FUTURE DEVELOPMENTS

Our philosophy is to take consistently good value Virgin-branded financial products, backed by top quality service, to the mass market. We 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 11, 12 and 13 to the financial statements.

CHARITABLE CONTRIBUTIONS

During the year the group made various charitable contributions totalling £11,758 (2003: £12,306).

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

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

The following changes have occurred:

Sir Richard Branson	Resigned	5 July 2004
W Gorman (alternate N Hiscock)	Resigned	2 March 2004
N Hiscock	Resigned	27 April 2004
M Jones	Resigned	27 April 2004
S Murphy	Appointed	5 July 2004

Sir Richard Branson and members of his immediate family are deemed to have an interest in the share capital of the Company, by virtue of being the principal beneficiaries of a number of trusts which own shares in Virgin Group Investments Limited, which in turn is the beneficial owner of such shares. Details of the share capital of the company are set out in note 20.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are disclosed in note 26 to the financial statements.

AUDITORS

KPMG LLP were appointed as auditors in the year under section 388(1) of the Companies Act 1985 (as amended) (the "Act"). 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. The last resolution will lead to the continuing appointment of KPMG LLP as auditors of the company until further notice.

On behalf of the Board



Dr P Pester
Chief Executive Officer
25 April 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, 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 financial statements; and
- prepare the financial statements 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 Group and to enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.

Virgin Money Group Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIRGIN MONEY GROUP LIMITED

We have audited the financial statements on pages 6 to 29.

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 are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of audit 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 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 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 and of the Group as at 31 December 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Registered Auditor
London

28 April 2005

Virgin Money Group Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 2004

	Notes	2004 £000	2003 £000
TURNOVER	2	241,327	232,232
Cost of sales	3	(186,330)	(191,184)
GROSS PROFIT		54,997	41,048
Administrative expenses		(53,526)	(37,954)
Other operating income	4	2,634	3,391
OPERATING PROFIT	5	4,105	6,485
Profit on disposal of discontinued operations	14	10,653	-
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		14,758	6,485
Interest receivable and similar income		961	623
Interest payable and similar charges	9	(5,608)	(5,202)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		10,111	1,906
Tax on profit on ordinary activities	10	(154)	(147)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		9,957	1,759

The accounting policies and notes on pages 12 to 29 form an integral part of these financial statements.

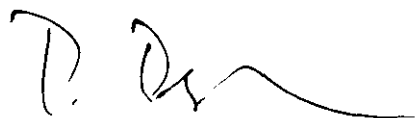
The company has taken advantage of Section 230(1)(b), (4) Companies Act 1985 exempting it from publishing its own profit and loss account. The profit dealt with in the accounts of the holding company for the year was £16.0 million (2003 – Loss £5.1 million).

Virgin Money Group Limited

PROFIT AND LOSS ACCOUNT For the year ended 31 December 2004

	2004 £000	2003 £000
Income from shares in Group undertakings	5,000	-
Profit on disposal of discontinued operations	17,632	-
PROFIT/LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST	22,632	-
Interest payable and similar charges	(5,880)	(5,489)
PROFIT/LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	16,752	(5,489)
Tax on profit on ordinary activities	(741)	389
PROFIT/LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	16,011	5,100

Approved by The Board of Directors on 25 April 2005.



Dr P Pester
Chief Executive Officer

Virgin Money Group Limited

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES or the year ended 31 December 2004

	<i>Notes</i>	<i>2004</i> <i>£000</i>	<i>2003</i> <i>£000</i>
PROFIT FOR THE YEAR		9,957	1,759
Forgiveness of loan balance by Virgin Management Limited	17	8,257	-
TOTAL RECOGNISED GAINS AND LOSSES FOR THE FINANCIAL YEAR		<u>18,214</u>	<u>1,759</u>

Virgin Money Group Limited

CONSOLIDATED BALANCE SHEET at 31 December 2004

	Notes	2004 £000	2003 £000
FIXED ASSETS			
Intangible assets	11	3,795	4,025
Tangible assets	12	3,216	3,275
Investments	13	-	22,082
		<u>7,011</u>	<u>29,382</u>
CURRENT ASSETS			
Debtors	15	19,131	12,852
Cash at bank and in hand		8,225	24,204
		<u>27,356</u>	<u>37,056</u>
CREDITORS: amounts falling due within one year	16	(16,458)	(26,930)
NET CURRENT ASSETS		<u>10,898</u>	<u>10,126</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>17,909</u>	<u>39,508</u>
CREDITORS: amounts falling due after more than one year	17	(66,429)	(98,042)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(1,561)	(9,761)
		<u>(50,081)</u>	<u>(68,295)</u>
CAPITAL AND RESERVES			
Called up share capital	20	79	79
Share premium	21	34,499	34,499
Other reserves	21	4,808	4,808
Profit and loss account	21	(89,467)	(107,681)
EQUITY SHAREHOLDERS' FUNDS	21	<u>(50,081)</u>	<u>(68,295)</u>

The financial statements on pages 6 to 29 were approved by The Board of Directors on 25 April 2005.



Dr P Pester
Chief Executive Officer

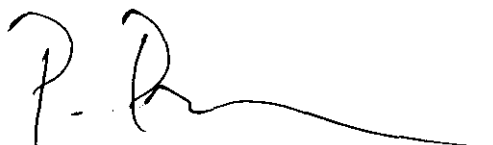
Virgin Money Group Limited

COMPANY BALANCE SHEET

at 31 December 2004

	<i>Notes</i>	<i>2004</i> <i>£000</i>	<i>2003</i> <i>£000</i>
FIXED ASSETS			
Investment in subsidiaries	13	166,098	181,098
CURRENT ASSETS			
Debtors	15	3,857	4,939
Cash at bank and in hand		1	9
		3,858	4,948
CREDITORS: amounts falling due within one year	16	(79,086)	(79,137)
NET CURRENT LIABILITIES		(75,228)	(74,189)
TOTAL ASSETS LESS CURRENT LIABILITIES		90,870	106,909
CREDITORS: amounts falling due after more than one year	17	(66,429)	(106,737)
		24,441	172
CAPITAL AND RESERVES			
Called up share capital	20	79	79
Share premium	21	34,499	34,499
Profit and loss account	21	(10,137)	(34,406)
EQUITY SHAREHOLDERS' FUNDS	21	24,441	172

The financial statements on pages 6 to 29 were approved by The Board of Directors on 25 April 2005.



Dr P Pester
Chief Executive Officer

Virgin Money Group Limited

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2004

	Notes	2004 £000	2003 £000
CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES	22 (a)	(7,654)	19,270
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(27)	(678)
Interest received		961	623
Interest element of finance lease rental payments		-	(30)
NET CASH INFLOW / (OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		934	(85)
TAXATION			
Taxation paid		(521)	-
CASH OUTFLOW FROM TAXATION		(521)	-
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS			
Payments to acquire tangible fixed assets		(1,967)	(1,559)
Payments to acquire investments		(73,015)	(94,940)
Receipts from the sale of investments		72,560	92,887
NET CASH INFLOW / (OUTFLOW) FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS		(2,422)	(3,612)
DISPOSAL OF SUBSIDIARY			
Cash proceeds from the sale of subsidiary, net of expenses		32,631	-
Cash disposed of with subsidiary		(9,703)	-
NET CASH INFLOW FROM DISPOSALS		22,928	-
NET CASH INFLOW BEFORE FINANCING		13,265	15,573
FINANCING			
Net movement in borrowings	22 (b)	(29,244)	(1,490)
NET CASH OUTFLOW FROM FINANCING		(29,244)	(1,490)
(DECREASE) / INCREASE IN CASH	22 (b)	(15,979)	14,083

Virgin Money Group Limited

CONSOLIDATED CASH FLOW STATEMENT (continued) for the year ended 31 December 2004

	<i>Notes</i>	<i>2004 £000</i>	<i>2003 £000</i>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
(Decrease) / increase in cash		(15,979)	14,083
Cash outflow from decrease in loans		28,857	1,200
Cash outflow from decrease in lease financing		387	290
Change in net debt arising from cash flows	22 (b)	13,265	15,573
Forgiveness of loan balance by Virgin Management Limited	22 (b)	8,257	-
Rolled up loan interest	22 (b)	(5,581)	(4,493)
Conversion of debt to equity		-	13,382
MOVEMENT IN NET DEBT		15,941	24,462
NET DEBT AT 1 JANUARY	22 (b)	(74,145)	(98,607)
NET DEBT AT 31 DECEMBER	22 (b)	(58,204)	(74,145)

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on a going concern basis and under the historical cost convention, except for investments held by the life assurance subsidiary that are included at market value. 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.

Deferred tax

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 Group 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.

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

1. ACCOUNTING POLICIES (continued)

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.

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.

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

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

1. ACCOUNTING POLICIES (continued)

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

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the group, are capitalised in the balance sheet and are depreciated over their useful economic lives. The capital elements of future obligations under the leases are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and represent a constant proportion of the balance of capital repayments outstanding. Rentals payable under operating leases are charged in the profit and loss account as they fall due under the contract.

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 Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

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, the marketing of other financial service products, and the provision of support services to related companies. Sales were made in the United Kingdom and Australia.

	2004 £000	2003 £000
Turnover:		
Sale of units	183,342	189,127
Management fees	20,882	18,906
Credit products	35,049	24,155
Other	2,054	44
	<u>241,327</u>	<u>232,232</u>
Profit / (loss) before taxation:		
Investment product business	9,436	6,191
Life and survival insurance business *	3,135	3,914
Other financial services products	647	(1,678)
Other	(7,880)	(1,032)
Holding company not attributed	6,759	(5,489)
	<u>12,097</u>	<u>1,906</u>
Net assets:		
Investment product business	6,350	5,981
Life and survival insurance business	-	15,776
Other financial services products	7,407	5,780
Other	2,308	1,735
Holding company not attributed	(66,146)	(97,567)
	<u>(50,081)</u>	<u>(68,295)</u>

* Up until 24 August 2004 (see note 14)

3. COST OF SALES

	2004 £000	2003 £000
Cost of sales of units:		
Opening stock	-	-
New units created	95,345	116,362
Units repurchased	195,599	115,104
Cancellations	(107,591)	(42,310)
Closing stock	-	-
	<u>183,353</u>	<u>189,156</u>
Stamp duty	367	337
Other	2,610	1,691
	<u>186,330</u>	<u>191,184</u>

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

4. OTHER OPERATING INCOME

	2004 £000	2003 £000
Balance on the long term business technical account	2,634	3,391

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	31 December 2003 £000
Earned premiums:		
Gross premiums written	7,916	11,616
Outwards reinsurance premiums	(4,151)	(5,956)
Earned premiums net of reinsurance	3,765	5,660
Investment income	123	1,062
Unrealised gains on investments	130	-
Total technical income	4,018	6,722
Claims incurred:		
Claims paid		
gross amount	(1,690)	(2,178)
reinsurers' share	1,152	1,438
net of reinsurance	(538)	(740)
Change in provision for outstanding claims		
gross amount	231	17
reinsurers' share	(229)	15
net of reinsurance	2	32
Change in other technical provisions:		
Long term business provision		
gross amount	(2,339)	(9,972)
reinsurers' share	1,500	8,924
net of reinsurance	(839)	(1,048)
Other charges:		
Net operating expenses	-	(1,170)
Investment expenses and charges	(9)	(4)
Unrealised losses on investments	-	(401)
Balance on the long term business technical account	2,634	3,391

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

5. OPERATING PROFIT

	2004 £000	2003 £000
Operating profit is stated after charging:		
Auditors' remuneration		
- audit services	85	132
- non-audit services	5	251
	<u>90</u>	<u>383</u>

All amounts payable to the auditors have been charged to Virgin Money Management Services Limited, a subsidiary undertaking.

Depreciation of owned fixed assets	1,802	2,146
Depreciation of assets held under a finance lease	215	288
	<u>2,017</u>	<u>2,434</u>
Amortisation of trademark	230	230
	<u>2,247</u>	<u>2,664</u>
Operating lease rentals		
- land and buildings	471	587
- plant and machinery	55	59
	<u>526</u>	<u>646</u>
Loss on disposal of fixed assets	9	-
	<u>9</u>	<u>-</u>
Losses due to currency movements	781	328
	<u>781</u>	<u>328</u>

6. DIRECTORS' EMOLUMENTS

	2004 £000	2003 £000
Emoluments	708	534
Pension contributions	33	30
	<u>741</u>	<u>564</u>

No emoluments were paid to non-executive directors (2003 - £Nil).

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

The highest paid director received emoluments of £445,000 (2003 - £352,000) and contributions to money purchase pension schemes of £25,000 (2003: £24,000).

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

7. EMPLOYEE INFORMATION

	2004 £000	2003 £000
Wages and salary costs	13,666	13,371
Social security costs	1,528	1,472
Pension costs	677	549
	<u>15,871</u>	<u>15,392</u>

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

	No.	No.
Call Centre, Administration & Life Insurance	204	219
IT	89	113
Finance & Compliance	49	42
Marketing	52	39
	<u>394</u>	<u>413</u>

8. OTHER FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases:

<i>Group</i>	2004 £000	2003 £000
<i>Land and buildings</i>		
Operating leases which expire:		
Within one year	7	8
In two to five years	346	37
In over five years	452	429
<i>Equipment</i>		
Operating leases which expire:		
Within one year	15	6
In two to five years	640	782
	<u>1,460</u>	<u>1,262</u>

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

9. INTEREST PAYABLE AND SIMILAR CHARGES

<i>Group</i>	2004 £000	2003 £000
Finance charges payable under finance leases	11	30
Interest on long term loans	5,581	5,171
Other interest and charges	16	1
	<u>5,608</u>	<u>5,202</u>

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

10. TAXATION

	2004 £000	2003 £000
Corporation tax	147	40
Prior year adjustment	21	9
Deferred tax movement	(14)	98
Current tax charge for the year	154	147

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

Factors affecting the tax charge for the year

The difference between the current tax charge for the year and the charge based on the standard rate of corporation tax in the UK of 30% (2003: 30%) is set out below

	2004 £000	2003 £000
Profit on ordinary activities before tax	10,111	1,906
Profit above multiplied by standard rate of corporation tax (30%)	3,033	572
Tax losses	(1,578)	(893)
Depreciation in excess of capital allowances	1,723	621
Adjustments in respect of previous periods	21	9
Disallowed expenses and non-taxable income	(2,523)	(48)
Other timing differences	(536)	(114)
Life Taxation	14	-
Current tax charge for the year	154	147

11. INTANGIBLE FIXED ASSETS

	Trademark £000
<i>Group</i>	
Cost:	
At 1 January 2004 and 31 December 2004	4,600
Amortisation:	
At 1 January 2004	575
Charge for the year	230
At 31 December 2004	805
Net book value:	
At 31 December 2004	3,795
At 31 December 2003	4,025

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

11. INTANGIBLE FIXED ASSETS (continued)

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

The company has no intangible fixed assets.

12. 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 2004	695	6,244	3,495	429	10,863
Additions	494	663	602	211	1,970
Disposals	-	(722)	-	-	(722)
At 31 December 2004	1,189	6,185	4,097	640	12,111
Depreciation:					
At 1 January 2004	512	4,084	2,660	332	7,588
Charge for the year	138	1,108	697	74	2,017
Disposals	-	(710)	-	-	(710)
At 31 December 2004	650	4,482	3,357	406	8,895
Net book value					
At 31 December 2004	539	1,703	740	234	3,216
At 31 December 2003	183	2,160	835	97	3,275

The net book value of hardware above includes an amount of £Nil (2003 - £215,000) in respect of assets held under finance leases.

The company has no tangible fixed assets.

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

13. INVESTMENTS

	2004 £000	2003 £000
<i>Group</i>		
Life company investments	-	22,082
Investment in EMX	-	-
	<u>-</u>	<u>22,082</u>

Following the sale of Virgin Money Life Limited the group no longer holds any UK debt securities and other UK fixed income securities. The cost of these investments totalled £22.3 million at 31 December 2003.

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 2004, 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 Great Britain with the exception of Virgin Money (Australia) Pty Ltd which is incorporated in Australia.

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

14. DISPOSAL OF VIRGIN MONEY LIFE LIMITED

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 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)
	<u>21,978</u>
Expenses associated with sale	1,108
Profit on disposal	10,653
	<u>33,739</u>

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

15. DEBTORS

	2004 £000	2003 £000
<i>Group</i>		
Trade debtors	16,430	10,098
Other debtors	560	541
Corporation tax	318	-
Prepayments and accrued income	1,823	2,213
	<u>19,131</u>	<u>12,852</u>
<i>Company</i>		
Amounts owed by subsidiaries	3,576	4,550
Corporation tax	281	389
	<u>3,857</u>	<u>4,939</u>

16. CREDITORS: amounts falling due within one year

	2004 £000	2003 £000
<i>Group</i>		
Trade creditors	6,018	4,562
Obligations under finance leases (note 18)	-	307
Other taxes and social security costs	953	886
Corporation tax payable	-	35
Other creditors	2,910	2,597
Accruals and deferred income	6,577	18,543
	<u>16,458</u>	<u>26,930</u>
<i>Company</i>		
Amounts owed to subsidiary undertakings	79,086	79,137
	<u>79,086</u>	<u>79,137</u>

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

	2004 £000	2003 £000
<i>Group</i>		
Loans from related parties	66,429	97,962
Obligations under finance leases (note 18)	-	80
	<u>66,429</u>	<u>98,042</u>
<i>Company</i>		
Loans from related parties	66,429	97,962
Loans from subsidiary undertaking	-	8,775
	<u>66,429</u>	<u>106,737</u>

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

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

Group and Company

Interest payable on loans from related parties in the year is £3.6 million (2003 - £5.2 million). The loans comprise:

	<i>Repayment date</i>	<i>Interest Rates</i>	<i>2004 £000</i>	<i>2003 £000</i>
Pearl Assurance	2 February 2006	220 bp above 12 month LIBOR	-	96,271
Virgin Management Ltd	27 April 2011	220 bp above 12 month LIBOR	64,645	-
Virgin Trusts	2 February 2006	100 bp above 12 month LIBOR	1,784	1,691
			<u>66,429</u>	<u>97,962</u>

On 27 April 2004 Virgin Group Investments Limited purchased HHG plc's shareholding in Virgin Money Group. 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 Group Limited, of £8,257,000.

Company

The loan from subsidiary undertakings was initially provided by Virgin Money Life Limited in February 1998 and was repaid in August 2004.

18. OBLIGATIONS UNDER FINANCE LEASES

<i>Group</i>	<i>2004 £000</i>	<i>2003 £000</i>
Amounts payable:		
Within one year	-	320
In two to five years	-	80
	<u>-</u>	<u>400</u>
Less: finance charges allocated to future periods	-	(13)
	<u>-</u>	<u>387</u>
Finance leases are analysed as follows:		
Current obligations (note 16)	-	307
Non-current obligations (note 17)	-	80
	<u>-</u>	<u>387</u>

All assets subject to finance leases were disposed of during the year.

The company has no finance leases.

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

19. PROVISIONS FOR LIABILITIES AND CHARGES

<i>Group</i>	<i>2004 £000</i>	<i>2003 £000</i>
Long term assurance liabilities to policyholders	-	8,208
Deferred tax	-	540
UK Card Reward Scheme	1,561	1,013
	<u>1,561</u>	<u>9,761</u>

The Company has no provisions for liabilities and charges.

19.1 LONG TERM ASSURANCE LIABILITIES TO POLICYHOLDERS

The group long-term assurance liabilities to policyholders comprise:

		<i>2004 £000</i>	<i>2003 £000</i>
Long term business provision	gross amount	-	35,604
	reinsurer's share	-	(27,624)
Claims outstanding	gross amount	-	915
	reinsurer's share	-	(687)
	net amount	<u>-</u>	<u>8,208</u>

The Life company was sold to Reassure UK Life Assurance Company Limited on 24 August 2004. Following the sale, no long term assurance liabilities now exist within Virgin Money Group.

19.2 DEFERRED TAX

	<i>Deferred tax £000</i>
At 1 January 2004	540
Movement in the year	(14)
Transferred on Sale of Life Co	(526)
At 31 December 2004	<u>-</u>

The deferred tax provision represented the tax effect of profits recognised in the statutory financial statements in advance of profits recognised on an FSA basis in relation to the Life company. Following the sale of the Life company, no other recognised deferred tax liabilities exist within the Group.

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

19. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

19.2 DEFERRED TAX (continued)

Deferred tax assets not recognised in accordance with the company's accounting policy, are as follows:

	2004 £000	2003 £000
<i>Group</i>		
Losses for taxation purposes carried forward	28,554	29,502
Accelerated capital allowances in arrears of depreciation	3,005	2,452
Other short term timing differences	950	904
Deferred taxation asset	<u>32,509</u>	<u>32,858</u>
<i>Company</i>		
Losses for taxation purposes carried forward	6,936	5,092
Other short term timing differences	235	207
Deferred taxation asset	<u>7,171</u>	<u>5,299</u>

19.3 UK CARD REWARD SCHEME

	<i>Reward Scheme Provision £000</i>
At 1 January 2004	1,013
Increase in provision	727
Redemptions	(179)
At 31 December 2004	<u>1,561</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.

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

20. SHARE CAPITAL

<i>Class</i>	<i>Authorised 2004 £</i>	<i>Allotted, called up & fully paid 2004 No</i>	<i>Allotted called up & fully paid 2004 £</i>	<i>Authorised 2003 £</i>	<i>Allotted, called up & fully paid 2003 No</i>	<i>Allotted, called up & fully paid 2003 £</i>
Virgin A Ordinary shares of 0.1p each	16,076	15,376,250	15,376	16,076	15,376,250	15,376
Abbot A Ordinary shares of 0.1p each	1,424	1,423,750	1,424	1,424	1,423,750	1,424
Virgin B Ordinary shares of 0.1p each	50,000	—	—	50,000	—	—
Abbot B Ordinary shares of 0.1p each	50,000	—	—	50,000	—	—
Virgin Convertible Ordinary shares 0.1p each	686	686,250	686	686	686,250	686
Abbot Convertible Ordinary shares 0.1p each	64	63,750	64	64	63,750	64
AMP A Ordinary shares 0.1p each	67,500	17,550,000	17,550	67,500	17,550,000	17,550
AMP B Ordinary shares of 0.1p each	50,000	—	—	50,000	—	—
Deferred ordinary shares of 0.1p each	44,000	44,000,000	44,000	44,000	44,000,000	44,000
	<u>279,750</u>	<u>79,100,000</u>	<u>79,100</u>	<u>279,750</u>	<u>79,100,000</u>	<u>79,100</u>

On 27 April 2004, Virgin Group Investments Limited purchased 50% of the share capital of Virgin Money Group Limited from HHG plc, at which point Virgin Money Group Limited became a wholly owned subsidiary of Virgin Group Investments Limited.

Right 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. Distributions are 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.

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

20. SHARE CAPITAL (continued)

Right of classes of shares (continued)

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 allocated between Virgin and Abbot A using the Virgin and Abbot proportion (see note).

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

2 Voting rights:

All A and B shareholders are entitled to receive notice of, 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 and Virgin/Abbot A shareholders, and allocated between Virgin and Abbot A using the Virgin and Abbot Proportions.

The Virgin convertible shares rank equally with the Virgin A shares and the Abbot convertible shares rank equally with the Abbot A shares for the purpose of voting.

The Virgin B, AMP B, and Abbot B shares rank equally for all purpose of voting.

3 Return of capital on a winding up:

After payment of capital of the deferred 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 shareholders and the Virgin/Abbot shareholders, and allocated between Virgin and Abbot A using the Virgin and Abbot Proportions.

4 Share options:

On the exercise of an option, allowing the issue of 750,000 Virgin A ordinary shares, each Abbot convertible share and Virgin convertible share shall convert into a deferred share.

Note:

“Abbot Proportion” is double the proportion of Abbot A ordinary and Abbot A convertible shares over all A shares in issue. “Virgin Proportion” is 100% less the Abbot proportion.

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

21. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Other reserves £000</i>	<i>Profit and loss £000</i>	<i>Total £000</i>
<i>Group</i>					
At 1 January 2004	79	34,499	4,808	(107,681)	(68,295)
Profit for the year	-	-	-	9,957	9,957
Other recognised gains in year	-	-	-	8,257	8,257
At 31 December 2004	79	34,499	4,808	(89,467)	(50,081)
<i>Company</i>					
At 1 January 2004	79	34,499	-	(34,406)	172
Profit for the year	-	-	-	16,012	16,012
Other recognised gains in year	-	-	-	8,257	8,257
At 31 December 2004	79	34,499	-	(10,137)	24,441

22. NOTES TO THE CASH FLOW STATEMENT

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

	<i>2004 £000</i>	<i>2003 £000</i>
Operating profit	4,105	6,485
Depreciation and amortisation	2,247	2,664
Profit on disposal of fixed assets	9	-
Increase in operating debtors and prepayments	(8,540)	(1,570)
(Decrease) / increase operating creditors and accruals	(6,862)	9,435
Unrealised losses on investments	-	535
Increase in other provisions	1,387	1,727
Exchange gain on cash, liquid resources and loans	-	(6)
Net cash (outflow) / inflow from operating activities	(7,654)	19,270

b) Analysis of net debt

	<i>At 1 January 2004 £000</i>	<i>Cash flow £000</i>	<i>Non Cash Movements £000</i>	<i>At 31 December 2004 £000</i>
Cash at bank and in hand	24,204	(15,979)	-	8,225
Long term loans (see Note 16)	(97,962)	28,857	(2,676)	(66,429)
Finance leases	(387)	387	-	-
	(74,145)	13,265	(2,676)	(58,204)

Virgin Money Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

Non-cash movements relate to the forgiveness of loan balance by Virgin Management of £8,257,000 and interest accrued in the year of £5,581,000.

23. 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 Group Limited group.

The Group paid a licence fee of £587,860 (2003: £443,097) to Virgin Enterprises Limited, in which the shareholder of the Group has an interest. The balance outstanding at the end of the year was £204,499, (2003: £85,061).

The Group incurred air mile charges of £1,110,533 (2003 - £354,896) to Virgin Atlantic Limited, in which the shareholder of the Group has an interest. The balance outstanding at the end of the year was £249,472 (2003 - £184,862).

The Group paid management fees of £273,012 (2003: £786,000) to Henderson Global Investors Limited in which HHG, a shareholder of the company up to 27 April 2004, has an interest. The balance outstanding at the end of the year relating to the fees paid was £Nil (2003: £210,000).

24. CAPITAL COMMITMENTS

The Group had capital commitments of £4,000 (2003: £Nil) at the balance sheet date.

25. 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 (2003: £Nil).

26. POST BALANCE SHEET EVENTS

On 30 March 2005, the company performed a capital restructuring following High Court approval. The capital restructuring comprised the cancellation of the company's share premium account of £34,498,187 and the reduction of the company's authorised share capital from £279,750 to £800 divided into 800,000 Virgin "A" Ordinary shares of 0.1p each.

The effect of the restructuring is to reduce the company's allotted, called up and fully paid share capital from £79,100 to £100, eliminate the share premium account and eliminate the deficit on the company's profit and loss account with the balance credited to a special distributable reserve.

27. ULTIMATE CONTROLLING PARTY

On 27 April 2004, Virgin Group Investments Limited purchased 50% of the share capital of Virgin Money Group Limited from HHG plc, at which point Virgin Money Group Limited became a wholly owned subsidiary of Virgin Group Investments Limited, a company incorporated in the British Virgin Islands.