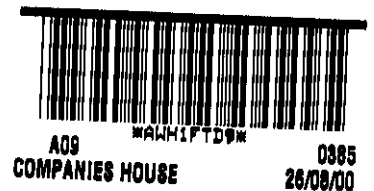


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Virgin Direct Limited

Report and Accounts

31-December-99



Virgin Direct Limited

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Virgin Direct Limited

Registered No. 3087587

DIRECTORS

Executive Directors:

C Meller
J A Gadhia
Dr P Pester
M Lund

Non-Executive Directors:

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

SECRETARY

P Gram

AUDITORS

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

BANKERS

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

REGISTERED OFFICE

Discovery House
Whiting Road
Norwich NR4 6EJ

Virgin Direct Limited

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY

The groups principal activities during the year continued to be that of a product provider of PEPs, Pensions, Unit Trusts, Deposit and Individual Savings Accounts and ordinary long term personal insurance.

RESULTS AND DIVIDENDS

The retained loss for the year ended for the group 31st December 1999 amounted to £21.4 m (1998 - £17.9 m). The directors do not recommend the payment of any dividends.

REVIEW OF THE BUSINESS

We are pleased to report that at the end of 1999 we have attracted funds under management in excess of £2.6 bn (1998 - £1.7 bn).

We expect to break-even in the medium term as we focus on increasing the long term value of the customer relationship.

FUTURE DEVELOPMENTS

We will seek to introduce innovative products and services to our customers that complement our current portfolio and as we seek to meet their needs, by adopting a policy of innovative change, reinforce our corporate positioning of being the customers preferred choice for personal financial services.

FIXED ASSETS

Details of the group's fixed assets are set out in Note 11 to the accounts.

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

During the year, the policy of providing employees with information about the group has been continued through the newsletter 'Inside' on our intranet site. Employees have also been encouraged to present their suggestions and views on the group's operations through regular meetings and presentations with senior management and employees.

Employees participate in the success of the business through the performance related bonus scheme, and if eligible, participation in the employee long term share incentive scheme.

Virgin Direct Limited

DIRECTORS' REPORT

YEAR 2000 COMPLIANCE

The costs of Year 2000 compliance are estimated at £268,000 in the year. Following adoption of a detailed program to address the impact of the issues on the companies activities, no major systems errors have been reported.

CHARITABLE CONTRIBUTIONS

During the year the Group made various charitable contributions totalling £8,222 (1998 - £3,443).

DIRECTORS AND THEIR INTERESTS

The names of the current directors are as listed on page 2. The following changes took place during the year:-

Sir Malcolm Bates		(Appointed 19 January 1999)	(Resigned 15 September 1999)
P Johnson	Alternate to G Trumbull	(Appointed 28 January 1999)	(Resigned 24 September 1999)
Dr P Pester		(Appointed 31 March 1999)	
M King		(Resigned 25 August 1999)	
G Trumbull		(Resigned 24 September 1999)	
S Clegg		(Resigned 13 October 1999)	
P Batchelor		(Appointed 23 November 1999)	
P Johnson	Alternate to P Bachelor	(Appointed 23 November 1999)	
C Meller		(Appointed 27 January 2000)	
M Lund		(Appointed 27 January 2000)	
R Gormley		(Resigned 11 February 2000)	
D Legge	Company Secretary	(Resigned 23 March 2000)	
P Gram	Company Secretary	(Appointed 23 March 2000)	

The following directors held shares in the Company as at 31 December 1999 as follows:

	Virgin Ordinary 0.1 pence	Convertible
Sir Richard Branson	1,085,735	48,615

In addition Sir Richard Branson and/or members of his family are beneficiaries under certain trusts holding 14,240,515 Virgin A Ordinary shares and 637,635 Virgin Convertible Ordinary shares in the company.

The Company has granted R Gormley share options, on a put and call basis, over 750,000 (1998 - 750,000) Virgin Ordinary Shares at par value.

On behalf of the Board,

Dr P Pester
Group Finance Director



Virgin Direct Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. 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 Limited

REPORT OF THE AUDITORS

We have audited the accounts on pages 7 to 23, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 11 and 12.

Respective responsibilities of directors and auditors

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

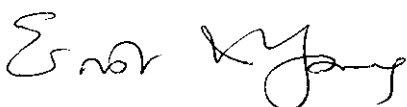
Basis of opinion

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

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

Opinion

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



Ernst & Young
Registered Auditor
London

27 March 2000

Virgin Direct Limited

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

	Notes	1999 £'000	1998 £'000
TURNOVER	2)	518,376	577,100
Cost of Sales	3)	(498,260)	(561,541)
Gross Profit		<u>20,116</u>	<u>15,559</u>
Administrative Expenses		(40,556)	(33,108)
Other Operating Expenses	4)	(481)	(658)
OPERATING LOSS	5)	<u>(20,921)</u>	<u>(18,207)</u>
Other interest receivable and similar income		2,209	2,027
Interest payable and similar charges	15)	(5,716)	(4,186)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(24,428)</u>	<u>(20,366)</u>
Tax on loss on ordinary activities	9)	3,001	2,489
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(21,427)</u>	<u>(17,877)</u>

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

The Group has no recognised gains nor losses other than the loss for the year.

The accounting policies and notes on pages 11 to 23 form an integral part of these financial statements.

The Company has taken advantage of Section 230(1)(b), (4) exempting it from publishing its own profit and loss account. The loss dealt with in the accounts of the holding company for the year was £4.9 m (1998 - £3.8 m)

Virgin Direct Limited

CONSOLIDATED BALANCE SHEET at 31 December 1999

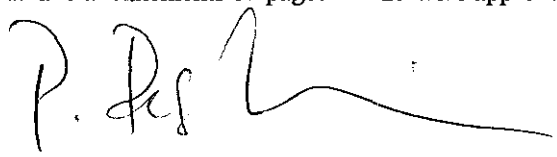
	Notes	1999 £'000	1998 £'000
FIXED ASSETS			
Tangible assets	11)	4,877	5,848
Other investments	12)	33,088	8,730
		<u>37,965</u>	<u>14,578</u>
CURRENT ASSETS			
Stock		39	3
Debtors	13)	10,444	7,379
Cash at bank and in hand		16,436	9,539
		<u>26,919</u>	<u>16,921</u>
CREDITORS : amounts falling due within one year	14)	(9,718)	(6,755)
NET CURRENT ASSETS		<u>17,201</u>	<u>10,166</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		55,166	24,744
CREDITORS : amounts falling due after more than one year	15)	(101,286)	(51,658)
PROVISIONS FOR LIABILITIES AND CHARGES			
Long term assurance liabilities to policyholders	16)	(6,717)	(4,496)
		<u>(52,837)</u>	<u>(31,410)</u>
CAPITAL AND RESERVES			
Called up share capital	17)	79	79
Share premium	18)	21,117	21,117
Other reserves	18)	4,808	4,808
Profit and loss account	18)	(78,841)	(57,414)
EQUITY SHAREHOLDERS' FUNDS		<u>(52,837)</u>	<u>(31,410)</u>

Virgin Direct Limited

COMPANY BALANCE SHEET at 31 December 1999

	Notes	1999 £'000	1998 £'000
FIXED ASSETS			
Investment in subsidiaries	12)	86,856	64,856
Other Investments	12)	24,000	-
		<u>110,856</u>	<u>64,856</u>
CURRENT ASSETS			
Debtors	13)	2,272	4,459
Cash at bank and in hand		3,337	1,890
		<u>5,609</u>	<u>6,349</u>
CREDITORS : amounts falling due within one year	14)	(658)	(85)
NET CURRENT ASSETS		<u>4,951</u>	<u>6,264</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		115,807	71,120
CREDITORS : amounts falling due after more than one year	15)	(106,286)	(56,658)
		<u>9,521</u>	<u>14,462</u>
CAPITAL AND RESERVES			
Called up share capital	17)	79	79
Share premium	18)	21,117	21,117
Profit and loss account	18)	(11,675)	(6,734)
EQUITY SHAREHOLDERS' FUNDS		<u>9,521</u>	<u>14,462</u>

The financial statements on pages 7 to 23 were approved by The Board of Directors on 23 March 2000


Dr P Pester
Group Finance Director

Virgin Direct Limited

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

	Notes	1999 £'000	1998 £'000
CASH OUTFLOW FROM OPERATING ACTIVITIES	19a)	(16,366)	(16,802)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Bank interest receivable and sundry income		1,776	1,938
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>1,776</u>	<u>1,938</u>
TAXATION			
Consortium relief received		2,619	2,592
TAX RECEIVED		<u>2,619</u>	<u>2,592</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS			
Payments to acquire tangible fixed assets	11)	(1,253)	(3,444)
Payments to acquire investments		(24,379)	-
Receipts from the sale of investments		-	3,543
Receipts from sales of tangible fixed assets	11)	-	39
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS		<u>(25,632)</u>	<u>138</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(37,603)</u>	<u>(12,134)</u>
FINANCING			
Net movement in long term borrowings	19b)	44,500	7,928
NET CASH OUTFLOW FROM FINANCING		<u>44,500</u>	<u>7,928</u>
INCREASE/(DECREASE) IN CASH	19b)	<u>6,897</u>	<u>(4,206)</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
	Notes	1999 £'000	1998 £'000
Increase/(decrease) in cash		6,897	(4,206)
Cash inflow from increase in loans		(44,500)	(7,928)
Change in net debt arising from cash flows	19b)	<u>(37,603)</u>	<u>(12,134)</u>
Rolled up loan interest		(5,128)	(4,186)
MOVEMENT IN NET DEBT		<u>(42,731)</u>	<u>(16,320)</u>
NET DEBT AT 1 JANUARY	19b)	(42,118)	(25,798)
NET DEBT AT 31 DECEMBER	19b)	<u>(84,849)</u>	<u>(42,118)</u>

Virgin Direct Limited

NOTES TO THE ACCOUNTS
at 31 December 1999

1 ACCOUNTING POLICIES

Fundamental Accounting Concept

The company and its subsidiaries are dependent on continuing finance being made available by its shareholders to enable them to continue operating, comply with the capital adequacy requirements of their respective regulatory authorities and meet their liabilities as they fall due. The shareholders have agreed to provide sufficient funds to the company and its subsidiaries for these purposes. The directors therefore consider it appropriate to prepare the accounts on a going concern basis.

Basis of preparation

The accounts have been prepared under the historical cost convention except for investments held by the life assurance subsidiary which are included at market value. The accounts have also been prepared in accordance with applicable accounting standards.

Consolidation basis

The group accounts consolidate the accounts of Virgin Direct Limited and all its subsidiary undertakings drawn up to 31st December each year. No profit and loss account is presented for Virgin Direct Limited as permitted by section 230 of the Companies Act 1985.

Turnover

Turnover comprises sales of units and management fees receivable all within the UK.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost.

Depreciation

Depreciation is provided on a straight line basis in order to write off the cost of fixed assets over their estimated useful lives. Depreciation is charged from the date assets are brought into use.

Leasehold Improvements	5 years
Office Equipment	5 years
Computer Hardware	4 years
Computer Software	3 years

Virgin Direct Limited

NOTES TO THE ACCOUNTS

at 31 December 1999

1 ACCOUNTING POLICIES (Continued)

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.

Deferred taxation

Deferred taxation is provided in respect of the tax effect of all timing differences to the extent that it is probable that a liability will crystallise.

Leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Investments

The group's investments are included at market value.

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 Insurance Companies Act 1982. The calculation uses the net premium valuation method.

Virgin Direct Limited

NOTES TO THE ACCOUNTS
at 31 December 1999

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 and authorised unit trusts and the provision of support services to related companies. All sales were made in the United Kingdom.

	1999 £'000	1998 £'000
Sale of units	497,461	561,213
Management fees	19,642	14,847
Stamp duty	681	425
Other	592	615
	<u>518,376</u>	<u>577,100</u>
Loss before taxation		
Investment product business	(18,970)	(16,111)
Life and survival insurance business	(88)	412
Holding company not attributed	(5,370)	(4,667)
	<u>(24,428)</u>	<u>(20,366)</u>
Net assets		
Investment product business	13,372	7,768
Life and survival insurance business	10,126	10,218
Holding company not attributed	(76,335)	(49,396)
	<u>(52,837)</u>	<u>(31,410)</u>

3 COST OF SALES

	1999 £'000	1998 £'000
Cost of sales of units:		
Opening Stock	3	0
New units created	359,416	455,546
Units repurchased	155,354	108,187
Cancellations	(17,151)	(2,633)
Closing stock	(39)	(3)
	<u>497,583</u>	<u>561,097</u>
Costs of units sold		
Stamp duty	677	444
	<u>498,260</u>	<u>561,541</u>

Virgin Direct Limited

NOTES TO THE ACCOUNTS at 31 December 1999

4 OTHER OPERATING EXPENSES

		1999 £'000	1998 £'000
Balance on long term business technical account		(479)	(646)
Other		(2)	(12)
		<u>(481)</u>	<u>(658)</u>
Balance on long term business technical account			
Earned premiums			
Gross premiums written		3,653	2,447
Outwards reinsurance premiums		(1,500)	(946)
Earned premiums net of reinsurance		<u>2,153</u>	<u>1,501</u>
Investment income		733	627
Unrealised (losses)/gains on investments		(571)	471
Total technical income		<u>2,315</u>	<u>2,599</u>
Claims incurred			
Claims paid	gross amount	(518)	(455)
	reinsurers' share	259	228
	net of reinsurance	<u>(259)</u>	<u>(227)</u>
Change in provision for outstanding claims	gross amount	(360)	(58)
	reinsurers' share	317	29
	net of reinsurance	<u>(43)</u>	<u>(29)</u>
Change in other technical provisions			
Long term business provision	gross amount	(3,373)	(2,508)
	reinsurers' share	1,195	1,490
	net of reinsurance	<u>(2,178)</u>	<u>(1,018)</u>
Other expenditure			
Net operating expenses		(205)	(1,467)
Investment expenses and charges		(23)	(13)
Taxation attributable to long term business		(86)	(491)
		<u>(314)</u>	<u>(1,971)</u>
Balance on the long term business technical account		<u>(479)</u>	<u>(646)</u>

Virgin Direct Limited

NOTES TO THE ACCOUNTS
at 31 December 1999

5 OPERATING LOSS

	1999 £'000	1998 £'000
Operating loss is stated after charging:		
Auditors' remuneration		
audit services	81	116
non audit services	108	142
	<u>189</u>	<u>258</u>
of which £22,000 was in respect of the holding company		
Depreciation of owned fixed assets	<u>2,489</u>	<u>2,048</u>
Operating lease rentals		
- land and buildings	592	504
- plant and machinery	<u>105</u>	<u>26</u>

6 DIRECTORS EMOLUMENTS

	1999 £'000	1998 £'000
Payments for loss of office	154	0
Other emoluments	<u>406</u>	<u>584</u>
	<u>560</u>	<u>584</u>

No emoluments were paid to non executive directors.

The emoluments of the highest paid director was £240,000. (1998 - £220,000)

7 EMPLOYEE INFORMATION

	1999 £'000	1998 £'000
Wages and salary costs	11,350	9,166
Social security costs	<u>1,071</u>	<u>877</u>
	<u>12,421</u>	<u>10,043</u>

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

Call Centre & Administration	483	417
Compliance	12	12
Marketing	23	16
Life	2	6
Finance	<u>15</u>	<u>14</u>
	<u>535</u>	<u>465</u>

Virgin Direct Limited

NOTES TO THE ACCOUNTS
at 31 December 1999

8 OTHER FINANCIAL COMMITMENTS

Annual commitments under non cancellable operating leases

<i>Group</i>	<u>1999</u> £'000	<u>1998</u> £'000
<i>Land and Buildings</i>		
Operating leases which expire:		
Within one year	129	-
In two to five years	-	129
In over five years	462	397
<i>Equipment</i>		
Operating leases which expire:		
Within one year	4	-
In two to five years	242	38
	<u>837</u>	<u>564</u>

9 TAXATION

<i>Group</i>	<u>1999</u> £'000	<u>1998</u> £'000
Consortium relief on the loss for the year	2,933	2,659
Prior year adjustment	68	(170)
	<u>3,001</u>	<u>2,489</u>

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

10 DEFERRED TAXATION

No adjustment for the effects of deferred taxation has been included in the financial statements, in accordance with the company's accounting policy. The deferred taxation asset excluded from the accounts is as follows:

<i>Group</i>	<u>1999</u> £'000	<u>1998</u> £'000
Losses for taxation purposes carried forward	12,824	10,070
Acquisition costs	206	290
Accelerated capital allowances in arrears of depreciation	939	420
Interest	112	85
Deferred taxation asset	<u>14,081</u>	<u>10,865</u>
<i>Company</i>		
Losses for taxation purposes carried forward	1,276	915
Interest	112	85
Deferred taxation asset	<u>1,388</u>	<u>1,000</u>

Virgin Direct Limited

NOTES TO THE ACCOUNTS at 31 December 1999

11 TANGIBLE FIXED ASSETS

	Leasehold Improvements	Computer hardware	Computer software	Other equipment	Total
	£'000	£'000	£'000	£'000	£'000
<i>Group</i>					
Cost:					
At 1 January 1999	-	7,021	1,502	1,081	9,604
Transfers	114	-	-	(114)	0
Additions	258	1,270	531	62	2,121
Disposals	-	(1,118)	(402)	(484)	(2,004)
At 31 December 1999	<u>372</u>	<u>7,173</u>	<u>1,631</u>	<u>545</u>	<u>9,721</u>
Depreciation;					
At 1 January 1999	-	2,585	761	410	3,756
Transfers	7	-	-	(7)	0
Charge for the year	20	1,802	461	206	2,489
Disposals	-	(1,006)	(259)	(136)	(1,401)
At 31 December 1999	<u>27</u>	<u>3,381</u>	<u>963</u>	<u>473</u>	<u>4,844</u>
Net book value at 31 December 1999	<u>345</u>	<u>3,792</u>	<u>668</u>	<u>72</u>	<u>4,877</u>
Net book value at 1 January 1999	<u>-</u>	<u>4,436</u>	<u>741</u>	<u>671</u>	<u>5,848</u>

Virgin Direct Limited

NOTES TO THE ACCOUNTS at 31 December 1999

12 INVESTMENTS

Group

	1999	1998
	£'000	£'000
Life Company Investments	9,088	8,730
Indemnity Deposit	24,000	-
	<u>33,088</u>	<u>8,730</u>

Life Company investments of £9.1 m (1998 - £8.7 m) are held in UK debt securities and other UK fixed income securities and are listed on a recognised investment stock exchange. The cost of these investments totalled £9.0 m. (1998 - £8.0 m)

The deposit of £24 m is held with The Royal Bank of Scotland as indemnity cover on our deposit product administered by them.

Company

Virgin Direct Limited held as at 31 December 1999 the following investments in subsidiary companies (each 100% owned and incorporated in Great Britain):

	Principal Activity	Capital & Reserves £'000	Loss for the year £'000
Virgin Direct Personal Financial Service Limited	Marketing Products on behalf of related companies and product manager	7,154	(12,410)
Virgin Direct Unit Trust Managers Limited	Product manager	6,218	(3,986)
Virgin Direct Life Limited	Life & survival insurance	10,127	(87)
Virgin Direct Management Services Limited	Service provider to Group and related companies	1,000	-

13 DEBTORS

Group

	1999	1998
	£'000	£'000
Trade debtors	5,331	2,639
Consortium relief	3,147	3,012
Other debtors	1,545	1,563
Prepayments and accrued income	421	165

Company

	1999	1998
	£'000	£'000
Loan to subsidiary undertaking	1,688	3,600
Consortium relief	584	859
	<u>2,272</u>	<u>4,459</u>

The amounts due from the subsidiary undertaking comprise loans made to cover working capital requirements and are interest free.

Virgin Direct Limited

NOTES TO THE ACCOUNTS at 31 December 1999

14 CREDITORS: amounts falling due within one year

	1999	1998
<i>Group</i>	£'000	£'000
Trade creditors	3,388	1,778
Taxation and social security	778	341
Other creditors	610	349
Accruals and deferred income	4,942	4,287
	<u>9,718</u>	<u>6,755</u>
<i>Company</i>		
Amounts owed to subsidiary undertakings	40	47
Accruals and deferred income	618	38
	<u>658</u>	<u>85</u>

15 CREDITORS: amounts falling due after more than one year

	1999	1998
<i>Group</i>	£'000	£'000
Loans from shareholders	<u>101,286</u>	<u>51,658</u>
<i>Company</i>		
Loans from shareholders	101,286	51,658
Loan from subsidiary undertaking	5,000	5,000
	<u>106,286</u>	<u>56,658</u>
<i>Group and Company</i>		

Interest payable on loans from shareholders in the year is £5.7 m (1998 - £4.2 m). The loans comprise:

	Repayment date	Interest Rates	1999	1998
			£'000	£'000
AMP (UK) plc	2 February 2006	220 bp above 12 month LIBOR	72,409	50,372
Virgin Trusts	2 February 2006	100 bp above 12 month LIBOR	1,377	1,286
Escrow	(See below)	(See below)	27,500	-
			<u>101,286</u>	<u>51,658</u>

The loan from Escrow, in which the Virgin Trusts have an interest, is made available by AMP (UK) plc. The monies are held primarily (£24.0 m) as indemnity against deposit product balances administered by The Royal Bank of Scotland. A corresponding asset is held in group investments (See note 12 above). The loan attracts interest at a rate which matches the return from The Royal Bank of Scotland on the investment. The balance of the loan on escrow (£3.5 m) attracts interest at 220 bp above 12 month LIBOR.

Company

The loan from subsidiary undertakings was provided by Virgin Direct Life Limited in February 1998, is repayable by February 2005, and attracts interest at 100 basis points over 3 month LIBOR. Interest payable during the year was £333,000 of which £40,000 was accrued at the end of the year.

Virgin Direct Limited

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16 LONG TERM ASSURANCE LIABILITIES TO POLICYHOLDERS

The long term assurance liabilities to policyholders comprise:

		1999 £'000	1998 £'000
Long term business provision	gross amount	10,167	6,794
	reinsurer's share	(3,663)	(2,468)
Claims outstanding	gross amount	700	340
	reinsurer's share	(487)	(170)
	net amount	<u>6,717</u>	<u>4,496</u>

The long term business provision has been calculated by M. Merrick, the Appointed Actuary of Virgin Direct Life Ltd and Fellow of the Institute of Actuaries, using the net premium valuation method. The principal assumptions underlying the calculation were as follows:

- All life business was valued using the AM(80) / AF(80) mortality table and an interest rate of 3%. (1998 - 3%)
- Permanent health business is valued using inception rates based on statistics relating to recent experience in the United Kingdom.
- There have been no significant changes in the bases or assumptions adopted for the calculation of the long term business provision during the year except as mentioned above.

17 SHARE CAPITAL

Class	Authorised 1999 £	Allotted, called up & fully paid 1999 No.	Allotted, called up & fully paid 1999 £	Authorised 1998 £	Allotted, called up & fully paid 1998 No.	Allotted, called up & fully paid 1998 £
Virgin A Ordinary shares of 0.1p each	16,076	15,326,250	15,326	16,076	15,326,250	15,326
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 of 0.1p each	67,500	17,500,000	17,500	67,500	17,500,000	17,500
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>79,000,000</u>	<u>79,000</u>	<u>279,750</u>	<u>79,000,000</u>	<u>79,000</u>

Virgin Direct Limited

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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. 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.

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 proportions (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 A 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 the 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:

"Abbott Proportion" is double the proportion of Abbott A ordinary and Abbott A convertible shares over all A shares in issue.

"Virgin Proportion" is 100% less the Abbott proportion.

Virgin Direct Limited

NOTES TO THE ACCOUNTS at 31 December 1999

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

<i>Group</i>	Share capital £'000	Share premium £'000	Other reserves £'000	Profit & loss £'000	1999 Total £'000	1998 Total £'000
At 1 January 1999	79	21,117	4,808	(57,414)	(31,410)	(13,533)
Result for the year	-	-	-	(21,427)	(21,427)	(17,877)
	<u>79</u>	<u>21,117</u>	<u>4,808</u>	<u>(78,841)</u>	<u>(52,837)</u>	<u>(31,410)</u>

Company

Balance at 1 January 1999	79	21,117	-	(6,734)	14,462	18,260
Result for the year	-	-	-	(4,941)	(4,941)	(3,798)
	<u>79</u>	<u>21,117</u>	<u>-</u>	<u>(11,675)</u>	<u>9,521</u>	<u>14,462</u>

19 NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of operating loss to net cash outflow from operating activities

	1999 £'000	1998 £'000
Operating loss	(20,921)	(18,207)
Depreciation of tangible fixed assets	2,489	2,048
Loss on disposal of tangible fixed assets	345	-
Increase in stocks	(36)	(3)
(Increase)/Decrease in operating debtors and prepayments	(2,450)	1,666
Increase/(Decrease) in operating creditors and accruals	2,012	(2,204)
Unrealised losses/(gains) on policyholder investments	571	(470)
Increase in the book value of policyholder investments	(597)	(650)
Increase in other provisions	2,221	1,018
Net cash outflow from operating activities	<u>(16,366)</u>	<u>(16,802)</u>

b) Analysis of net debt

	At 01-Jan 1999 £'000	Cash Flow £'000	Other £'000	At 31-Dec 1999 £'000
Cash at bank and in hand	9,540	6,897	-	16,437
Long term loans	(51,658)	(44,500)	(5,128)	(101,286)
	<u>(42,118)</u>	<u>(37,603)</u>	<u>(5,128)</u>	<u>(84,849)</u>

Virgin Direct Limited

NOTES TO THE ACCOUNTS at 31 December 1999

20 RELATED PARTY TRANSACTIONS

The Group paid a licence fee of £205,000 (1998 - £109,000) to Virgin Enterprises Limited, in which certain shareholders of the company have an interest. The balance outstanding at the end of the year was £126,000.

The Group paid management fees of £1,004,000 (1998 - £911,000) to AMP Asset Management plc, in which a certain shareholder of the company has an interest. The balance outstanding at the end of the year was £278,000.

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 Direct group.

The group has provided management services to Virgin Direct Personal Finance Ltd during the year, which is a joint venture between Virgin Direct (2) Ltd and the Royal Bank of Scotland. The shareholders of Virgin Direct (2) Ltd are the same as those of Virgin Direct Ltd.

The amounts receivable from Virgin Direct Personal Finance Ltd for services provided during the year total £592,000 (1998 - £615,000), of which £127,000 (1998 - £154,000) was outstanding at the year end.

21 CAPITAL COMMITMENTS

There were no capital commitments at the balance sheet date.