

3087587

## **VIRGIN MONEY HOLDINGS (UK) LIMITED**

Annual Report

31 December 2006

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COMPANIES HOUSE

# Virgin Money Holdings (UK) Limited

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# Virgin Money Holdings (UK) Limited

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Registered No 3087587

## **DIRECTORS AND OFFICERS**

### **EXECUTIVE DIRECTORS**

Jayne-Anne Gadhia  
Mark Hodgkinson  
Richard Fairman

### **NON-EXECUTIVE DIRECTORS**

Gordon McCallum  
Patrick McCall

### **SECRETARY**

Barry Gerrard

### **AUDITORS**

KPMG LLP  
8 Salisbury Square  
London EC4Y 8BB

### **BANKERS**

Lloyds TSB Bank plc  
City Office  
PO Box 72, Bailey Drive  
Gillingham Business Park  
Gillingham  
Kent, ME8 0LS

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

### **REGISTERED OFFICE**

Discovery House  
Whiting Road  
Norwich NR4 6EJ

# Virgin Money Holdings (UK) Limited

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## DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2006

### RESULTS AND DIVIDENDS

The results for the year are set out on Page 7. No dividends were declared and paid during the year (2005 £1), see note 12

### PRINCIPAL ACTIVITIES

The group's principal activities continue to be the following

- Marketing and direct distribution of personal credit cards and unsecured loans under partnership agreements with MBNA Europe Bank Limited,
- Provision of Individual Savings Accounts, Personal Equity Plans and Unit Trusts, and
- Marketing and direct distribution of general insurance, life insurance, cancer insurance and deposit accounts under partnership agreements with other financial services companies

The group disposed of its Australian business in 2005 and is now solely focussed on the UK

### BUSINESS REVIEW

The group has generated a 66% increase in operating profit in the year from its continuing operations. This reflects a 10% increase in turnover, an 8% increase in gross profits and the maintenance of administrative expenses at 2005 levels. The group generated a retained profit of £12.6m in the year.

The group has generated a further increase in its funds under management in the year, with £2.6 billion invested at 31 December 2006 (2005 £2.4 billion).

The group refinanced in the year securing bank term and revolving credit facilities of £70m at competitive rates. This allowed shareholder debt to be repaid in full.

Key performance indicators reviewed by management include indicators of marketing and sales performance, customer activity, customer service, market performance and funds under management. The group continues to face risks in relation to the UK personal credit market, the value of UK equities, corporate bonds and gilts, and in relation to consumer demand for its products.

### LIKELY FUTURE DEVELOPMENTS

The group will continue to take consistently good value Virgin branded financial service products, backed by top quality service, to the mass market. The group will continue to develop, market and distribute a range of financial services products.

### 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 an 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 13, 14 and 15 to the financial statements.

### CHARITABLE CONTRIBUTIONS

During the year the group made various charitable contributions totalling £31,581 (2005 £27,649).



## Virgin Money Holdings (UK) Limited

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### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 group and to prevent and detect fraud and other irregularities.

# Virgin Money Holdings (UK) Limited

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## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIRGIN MONEY HOLDINGS (UK) LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Virgin Money Holdings (UK) Limited for the year ended 31<sup>st</sup> December 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on Page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 group's and 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.

## Virgin Money Holdings (UK) Limited

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### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIRGIN MONEY HOLDINGS (UK) LIMITED

#### Opinion

##### In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

*KPMG LLP*

**KPMG LLP**  
Chartered Accountants  
Registered Auditor  
London

25 April 2007



# Virgin Money Holdings (UK) Limited

## CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 2006

		2006	2005
			<i>Restated</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
<b>TURNOVER</b>	2, 3		
Continuing Operations		74,843	67,916
Discontinued Operations		-	10,685
		<u>74,843</u>	<u>78,601</u>
Cost of sales	3	(6,232)	(4,624)
Gross Profit	3	<u>68,611</u>	<u>73,977</u>
Administrative expenses	3		
Continuing Operations		(54,645)	(54,989)
Discontinued Operations		-	(10,822)
		<u>(54,645)</u>	<u>(65,811)</u>
<b>OPERATING PROFIT</b>	3 4		
Continuing Operations		13,966	8,434
Discontinued Operations		-	(268)
		<u>13,966</u>	<u>8,166</u>
Restructuring Costs	9	(706)	(1,185)
Profit on disposal of discontinued operations	8	-	2,781
		<u>13,260</u>	<u>9,762</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST</b>			
Interest receivable and similar income		1,472	723
Interest payable and similar charges	10	(4,583)	(4,502)
		<u>10,149</u>	<u>5,983</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>			
Tax on profit on ordinary activities	11	2,454	2,471
<b>RETAINED PROFIT FOR THE FINANCIAL YEAR</b>		<u>12,603</u>	<u>8,454</u>

Certain comparatives have been restated (see note 1).

The accounting policies and notes on pages 12 to 26 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 loss dealt with in the financial statements of the holding company for the year was £2.9 million (2005: loss £4.5 million).

There were no other recognised gains or losses in the year, other than the profit for the year as reported above. As a result no Statement of Total Recognised Gains & Losses has been provided.

# Virgin Money Holdings (UK) Limited

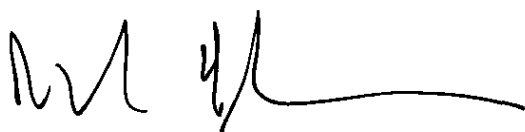
## CONSOLIDATED BALANCE SHEET at 31 December 2006

		2006	2005
	Notes	£000	Restated £000
<b>FIXED ASSETS</b>			
Intangible assets	13	3,335	3,565
Tangible assets	14	2,033	1,955
Investments	15	-	-
		<u>5,368</u>	<u>5,520</u>
<b>CURRENT ASSETS</b>			
Debtors	16	16,735	20,120
Cash at bank and in hand	17	12,774	10,786
		<u>29,509</u>	<u>30,906</u>
<b>CREDITORS amounts falling due within one year</b>	18	(26,451)	(12,486)
<b>NET CURRENT ASSETS</b>		<u>3,058</u>	<u>18,420</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>8,426</u>	<u>23,940</u>
<b>CREDITORS amounts falling due after more than one year</b>	19	(31,484)	(59,877)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	20	(5,966)	(5,690)
<b>NET LIABILITIES</b>		<u>(29,024)</u>	<u>(41,627)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	21	-	-
Distributable capital reserve	22	23,354	23,354
Profit and loss account	22	(52,378)	(64,981)
<b>SHAREHOLDERS' FUNDS</b>	22	<u>(29,024)</u>	<u>(41,627)</u>

Certain comparatives have been restated (see note 1)

The accounting policies and notes on pages 12 to 26 form an integral part of these financial statements

The financial statements on pages 7 to 26 were approved by The Board of Directors on 25 April 2007 and were signed on its behalf by



Mark Hodgkinson  
Chief Executive Officer

# Virgin Money Holdings (UK) Limited

## COMPANY BALANCE SHEET at 31 December 2006

	<i>Notes</i>	<i>2006 £000</i>	<i>2005 £000</i>
<b>FIXED ASSETS</b>			
Investment in subsidiaries	15	94,820	91,820
		<u>          </u>	<u>          </u>
<b>CURRENT ASSETS</b>			
Debtors	16	1,026	5
Cash at bank and in hand		5	3
		<u>          </u>	<u>          </u>
		1,031	8
<b>CREDITORS amounts falling due within one year</b>	18	(42,486)	(7,209)
		<u>          </u>	<u>          </u>
<b>NET CURRENT LIABILITIES</b>		(41,455)	(7,201)
		<u>          </u>	<u>          </u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		53,365	84,619
		<u>          </u>	<u>          </u>
<b>CREDITORS amounts falling due after more than one year</b>	19	(31,484)	(59,877)
		<u>          </u>	<u>          </u>
<b>NET ASSETS</b>		21,881	24,742
		<u>          </u>	<u>          </u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	21	-	-
Distributable capital reserve	22	23,354	23,354
Profit and loss account	22	(1,473)	1,388
		<u>          </u>	<u>          </u>
<b>SHAREHOLDERS' FUNDS</b>	22	21,881	24,742
		<u>          </u>	<u>          </u>

The accounting policies and notes on pages 12 to 26 form an integral part of these financial statements

The financial statements on pages 7 to 26 were approved by The Board of Directors on 25 April 2007 and were signed on its behalf by



Mark Hodgkinson  
Chief Executive Officer

# Virgin Money Holdings (UK) Limited

## CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2006

	<i>Notes</i>	<i>2006 £000</i>	<i>2005 £000</i>
<b>CASH INFLOW FROM OPERATING ACTIVITIES</b>	23 (a)	26,587	8,243
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest paid		(7,603)	(4,944)
Loan issue costs paid		(1,339)	-
Interest received		1,472	723
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		(7,470)	(4,221)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS</b>			
Payments to acquire tangible fixed assets		(1,214)	(746)
Receipts from the sale of fixed assets		9	-
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS</b>		(1,205)	(746)
<b>DISPOSALS</b>			
Cash proceeds from disposal of Australia business	8	-	4,220
Cash disposed of with businesses		-	(715)
<b>NET CASH INFLOW FROM DISPOSALS</b>		-	3,505
<b>NET CASH INFLOW BEFORE FINANCING</b>		17,912	6,781
<b>FINANCING</b>			
Net movement in borrowings	23 (b)	(15,924)	(4,220)
<b>NET CASH OUTFLOW FROM FINANCING</b>		(15,924)	(4,220)
<b>INCREASE IN CASH</b>	23 (b)	1,988	2,561

# Virgin Money Holdings (UK) Limited

## CONSOLIDATED CASH FLOW STATEMENT (continued) for the year ended 31 December 2006

	<i>Notes</i>	<i>2006 £000</i>	<i>2005 £000</i>
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>			
Increase in cash		1,988	2,561
Cash outflow from decrease in loans and issue costs		21,106	4,220
Change in net debt arising from cash flows	23 (b)	23,094	6,781
Rolled up loan interest	23 (b)	(589)	442
Amortised loan issue costs	23 (b)	(234)	-
<b>MOVEMENT IN NET DEBT</b>		<b>22,271</b>	<b>7,223</b>
<b>NET DEBT AT 1 JANUARY</b>	23 (b)	<b>(50,981)</b>	<b>(58,204)</b>
<b>NET DEBT AT 31 DECEMBER</b>	23 (b)	<b>(28,710)</b>	<b>(50,981)</b>

# Virgin Money Holdings (UK) Limited

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## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

### 1. ACCOUNTING POLICIES

#### *Basis of preparation*

The financial statements have been prepared on a going concern basis and under the historical cost convention. 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.

#### *Change in accounting policy*

A review of the company's accounting policies and market developments in the industry has led to a reinterpretation of Application Note G of FRS 5 in 2006. The effect of this change in accounting policy has been to exclude the gross sales of Unit Trusts from the results of the group. The turnover now includes the management fee net of rebates. The impact on the 2005 financial statements has been to decrease turnover by £179,619,706, decrease cost of sales by £179,971,925 and increase administrative expenses by £352,219. Debtors and creditors have decreased by £3,851,267. The change has no impact on profit before tax or net assets in 2006 or 2005.

#### *Taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between treatment of certain items for taxation and accounting purposes.

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 financial statements of Virgin Money Holdings (UK) 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, 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. Management fees are recognised daily based on the value of the funds. The group also receives cash flows under an Australian contract which it then passes onto a related group company. These Australian cash flows are not recognised in turnover and cost of sales because the company has no rights to these cash flows or risks in respect of them.

#### *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.

# Virgin Money Holdings (UK) Limited

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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

### 1. ACCOUNTING POLICIES (continued)

#### *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 in order to write off the cost of the assets over the following periods:

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

#### *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.

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*

Rentals payable under operating leases are charged in the profit and loss account as they fall due under the contract.

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

### 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 and the marketing of other financial service products. Turnover is derived in the United Kingdom and relates to continuing operations.

	2006 £000	2005 <i>Restated</i> £000
Turnover		
Investment business	26,185	23,760
Protection business	4,985	3,755
Credit business – continuing operations	43,673	40,401
Credit business – discontinued operations	-	10,685
	<u>74,843</u>	<u>78,601</u>
Profit before taxation		
Investment and Protection business*	3,197	8,182
Credit business	9,082	10,345
Other	(2,130)	(12,544)
	<u>10,149</u>	<u>5,983</u>
Net assets/(liabilities)		
Investment and Protection business*	47,944	42,723
Credit business	22,878	11,376
Other	(99,846)	(95,726)
	<u>(29,024)</u>	<u>(41,627)</u>

\* The company's subsidiary, Virgin Money Personal Financial Service Limited operates both an Investment and a Protection business and it is not possible to split the profit before taxation or the net assets.

The 2005 net assets / (liabilities) have been restated to reflect intercompany debtors and creditors.

### 3. ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS

	2006	2005 (Restated)		
	Continuing £'000	Continuing £'000	Discontinued £'000	Total £'000
Turnover	74,843	67,916	10,685	78,601
Cost of Sales	(6,232)	(4,493)	(131)	(4,624)
Gross Profit	68,611	63,423	10,554	73,977
Administrative Expenses	(54,645)	(54,989)	(10,822)	(65,811)
Operating Profit/(Loss)	<u>13,966</u>	<u>8,434</u>	<u>(268)</u>	<u>8,166</u>

The operations discontinued in 2005 comprise the Australia card business – see Note 8.



# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

### 4. OPERATING PROFIT

	2006 £000	2005 £000
Operating profit is stated after charging		
Auditors' remuneration		
- Fees payable for the audit of company's annual accounts	12	10
- Fees payable for the audit of subsidiaries pursuant to legislation	48	45
- Other services pursuant to legislation	87	125
	<u>147</u>	<u>180</u>
Depreciation of owned fixed assets	1,109	1,427
Amortisation of trademark	230	230
	<u>1,339</u>	<u>1,657</u>
Operating lease rentals		
- land and buildings	608	778
- plant and machinery	461	19
	<u></u>	<u></u>
Loss on disposal of fixed assets	18	31
	<u></u>	<u></u>
Losses due to currency movements	-	40
	<u></u>	<u></u>

In addition to the amounts disclosed above, a further £145,000 was paid to the companies auditors in respect of the group's refinancing. This amount has been deferred against the loan balance.

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

### 5. DIRECTORS' EMOLUMENTS

	2006 £000	2005 £000
Emoluments	415	610
Contributions to money purchase pension schemes	21	49
Payments for loss of office	-	292
	<u>436</u>	<u>951</u>

No emoluments were paid to non-executive directors (2005 - £Nil)

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

The highest paid director received emoluments of £255,000 (2005 £242,500) and contributions to money purchase pension schemes of £10,000 (2005 £8,000).

The directors benefit under a long term incentive scheme (see Note 20). However, amounts receivable by directors under this scheme will not become due until 31 December 2007 and will be disclosed as director's emoluments in that year.

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

### 6 EMPLOYEE INFORMATION

	2006 £000	2005 £000
Wages and salary costs	9,846	15,273
Social security costs	1,174	1,681
Pension costs	631	752
	<u>11,651</u>	<u>17,706</u>

The amounts above include exceptional redundancy costs— see Note 9

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

	No	No
Call Centre & Administration	86	183
IT	62	81
Finance & Compliance	39	51
Marketing	49	56
	<u>236</u>	<u>371</u>

### 7. OTHER FINANCIAL COMMITMENTS

At 31 December 2006 the group had annual commitments under non-cancellable operating leases as set out below

Group	2006 £000	2005 £000
<i>Land and buildings</i>		
Operating leases which expire		
Within one year	63	8
In two to five years	80	125
In over five years	462	452
<i>Equipment</i>		
Operating leases which expire		
Within one year	-	113
In two to five years	334	300
	<u>939</u>	<u>998</u>

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

The company has no operating lease commitments

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

### 8. DISPOSALS

#### AUSTRALIA BUSINESS

In 2005 the group disposed of its Australia business through two transactions

- a dividend by Virgin Money Holdings (UK) Limited of its investment in Virgin Money Overseas Limited on 21 October 2005, and
- the disposal by Virgin Money Limited of its rights under the Australia credit card referral agreement with Westpac Bank on 8 November 2005

These transactions have been accounted for as a disposal and result in a net profit on disposal of £2,781,000 which has been recognised in the profit and loss account. The proceeds and net assets disposed of are disclosed below

Disposal through dividend of Virgin Money Overseas Limited	£000
Tangible fixed assets	549
Debtors	330
Cash at bank and in hand	715
Creditors	(1,149)
	<hr/>
	445
Consideration received	-
	<hr/>
Loss on disposal	445
	<hr/>
Disposal by Virgin Money Limited of Rights under Credit Card Referral Agreement	
Consideration received	4,220
Rights under contract (rights to control contract and rights to future cashflows)	-
	<hr/>
Profit on disposal	4,220
Of which,	
Recognised in 2005	3,226
Deferred (see below)	994
	<hr/>
	4,220
	<hr/>

Of the profit arising, £993,726 relates to the fair value of Virgin Money Limited's rights to future income under the term of the Westpac contract to May 2008. This profit is being deferred and recognised over the relevant periods in which the cash flows under the contract are expected to arise. The amount recognised in 2006 amounted to £421,000.

In addition, the company is entitled to receive further income of up to A\$6m depending on the performance of the Australia card business in the period to November 2008. No amounts have been recognised to date and this income will only be recognised once the company is certain to receive it.

The tax charge arising in 2005 on the exceptional profits was £950,000.

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

### 9 RESTRUCTURING COSTS

On 13 July 2006, the group outsourced its administration, sales and service function to a third party provider, International Financial Data Systems Limited (IFDS). A number of employees impacted by this outsourcing were made redundant.

The financial statements include redundancy and transitional costs incurred in the year of £663,000 (2005 £685,000) and a provision for £43,000 in respect of the estimated further redundancy costs to be incurred in 2007 (2005 £500,000).

The tax effect of this exceptional item is £212,000 (2005 £356,000).

### 10 INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £000	2005 £000
Interest on long term loans	4,145	4,438
Other interest and charges	204	64
Debt issue costs written off in the year	234	-
	<u>4,583</u>	<u>4,502</u>

### 11. TAXATION

	2006 £000	2005 £000
Corporation tax	-	61
Prior year adjustment	-	(5)
Current tax credit	-	56
Deferred tax asset recognised in the year	(2,454)	(2,527)
Tax credit	<u>(2,454)</u>	<u>(2,471)</u>

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

#### Factors affecting the tax charge for the year

The current tax charge for the period is lower (2005 lower) than the standard rate of corporation tax in the UK of 30% (2005 30%). The differences are set out below.

	2006 £000	2005 £000
Profit on ordinary activities before tax	10,149	5,983
Profit above multiplied by standard rate of corporation tax (30%)	3,045	1,795
Tax losses utilised	(4,261)	(2,232)
Depreciation in excess of capital allowances	311	(538)
Adjustments in respect of previous periods	-	(5)
Disallowed expenses and non-taxable income	1,074	276
Other timing differences	(169)	760
Current tax credit for the year	<u>-</u>	<u>56</u>

## Virgin Money Holdings (UK) Limited

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

#### 12. DIVIDENDS

No dividends were declared in 2006

On 13 June 2005, the company declared a dividend in specie to its parent at that time, Virgin Money Investment Group Limited, in respect of the rights the company had to use certain Virgin trade marks in relation to the provision of certain financial services and products outside of the UK. These rights had not been recognised on the company's balance sheet and accordingly the dividend in specie was determined to be at zero value.

On 13 June 2005, the company received dividends in specie from its subsidiaries, Virgin Money Unit Trust Managers Limited and Virgin Money Personal Financial Service Limited, in respect of certain rights those subsidiaries had to use certain Virgin trade marks in relation to the provision of certain financial services and products outside of the UK. On 13 June 2005, the company declared a dividend in specie of the same rights to its parent at that time, Virgin Money Investment Group Limited. These rights had not been recognised on the respective balance sheets of those subsidiaries and hence the respective dividends in specie were determined to be at zero value.

On 13 June 2005, the company's subsidiary Challenger (Norwich) Limited declared a cash dividend of £79,086,202.81 which sum was satisfied by way of set-off against an equivalent amount of the intercompany balance owed from the company to Challenger (Norwich) Limited.

On 21 October 2005, the company declared a dividend in specie of the entire issued share capital of 1 ordinary share of £1 in its subsidiary, Virgin Money Overseas Limited to its parent at that time, Virgin Money Investment Group Limited.

#### 13. INTANGIBLE FIXED ASSETS

<i>Group</i>	<i>Trademark £000</i>
Cost	
At 1 January 2006 and 31 December 2006	4,600
Amortisation	
At 1 January 2006	1,035
Charge for the year	230
At 31 December 2006	1,265
Net book value	
At 31 December 2006	3,335
At 31 December 2005	3,565

The reference to trade mark, represents the right to use certain Virgin trade marks in relation to the provision of certain financial services and products. This is being amortised over the directors' estimate of its useful economic life of 20 years.

The company has no intangible fixed assets.

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

### 14. 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>
<b>Cost</b>					
At 1 January 2006	1,033	4,722	2,901	647	9,303
Additions	83	419	709	3	1,214
Disposals	-	(385)	-	(8)	(393)
At 31 December 2006	1,116	4,756	3,610	642	10,124
<b>Depreciation</b>					
At 1 January 2006	746	3,696	2,427	479	7,348
Charge for the year	107	556	384	62	1,109
Disposals	-	(362)	-	(4)	(366)
At 31 December 2006	853	3,890	2,811	537	8,091
Net book value at 31 December 2006	263	866	799	105	2,033
Net book value at 31 December 2005	287	1,026	474	168	1,955

The company has no tangible fixed assets

### 15. INVESTMENTS

<i>Group</i>	<i>2006 £000</i>	<i>2005 £000</i>
Investment in EMX	-	-

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 was sold in 2007 for nominal value.

#### *Company*

The company's principal subsidiary undertakings as at 31 December 2006, all of which are included in the consolidated financial statements, are set out below. All subsidiary undertakings provide financial services products and are 100% owned directly or indirectly and incorporated in England and Wales.

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

On 17 May 2006 the company subscribed to an additional 3,000,000 Ordinary Shares of £1 each in Virgin Money Personal Financial Service Limited.

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

### 15. INVESTMENTS (continued)

On 13 June 2005, the company wrote down the carrying value of its investment in Challenger (Norwich) Limited by £79,086,202 81 as the carrying value was impaired following the receipt of a dividend from Challenger (Norwich) Limited of £79,086,202 81 which was netted off a liability of Challenger (Norwich) Limited at that time (see also Note 12)

On 21 October 2005, the company declared a dividend in specie in respect of its investment in Virgin Money Overseas Limited (see Notes 8 and 12)

### 16. DEBTORS

	2006	2005
		<i>Restated</i>
<i>Group</i>	<i>£000</i>	<i>£000</i>
Trade debtors	10,305	16,178
Deferred tax asset	4,981	2,527
Other debtors	107	317
Corporation tax	5	5
Prepayments and accrued income	1,337	1,093
	<u>16,735</u>	<u>20,120</u>
<i>Company</i>		
Corporation tax	-	5
Group relief	1,026	-
	<u>1,026</u>	<u>5</u>

### 17. CASH

The company's subsidiaries, Virgin Money Unit Trust Managers Limited and Virgin Money Personal Financial Service Limited are regulated by the Financial Services Authority and the group's cash balance includes an amount used to cover their regulatory capital requirements. At 31 December 2005, the group had £384,471 of cash held in escrow. This escrow amount was released in the year.

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

	2006	2005
		<i>Restated</i>
<i>Group</i>	<i>£000</i>	<i>£000</i>
Trade creditors	4,244	3,232
Bank loans (see note 19)	10,000	-
Loans from related parties (see note 19)	-	1,890
Other taxes and social security costs	870	997
Other creditors	3,500	3,347
Accruals and deferred income	7,837	3,020
	<u>26,451</u>	<u>12,486</u>
<i>Company</i>		
Amounts owed to subsidiary undertakings	32,477	5,273
Bank loans (see note 19)	10,000	-
Loans from related parties (see note 19)	-	1,890
Accruals and deferred income	9	-
Group relief payable	-	46
	<u>42,486</u>	<u>7,209</u>

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

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

	2006 £000	2005 £000
<i>Group</i>		
Loans from related parties	-	59,877
Bank loans	31,484	-
	<u>31,484</u>	<u>59,877</u>
<i>Company</i>		
Loans from related parties	-	59,877
Bank loans	31,484	-
	<u>31,484</u>	<u>59,877</u>

#### Group and Company

Interest payable on loans in the year is £4.1 million (2005 - £4.4 million). The loans comprise

	<i>Repayment date</i>	<i>Interest Rates</i>	2006 £000	2005 £000
Virgin Management Ltd	27 April 2011	220 bp above 12 month LIBOR	-	59,877
Virgin Trusts	2 February 2006	100 bp above 12 month LIBOR	-	1,890
Bank loans Facility A	22 November 2009	85 bp above LIBOR	35,577	-
Bank loans Facility B	22 May 2011	85 bp above LIBOR	7,012	-
			<u>42,589</u>	<u>61,767</u>
Less: Amounts due for settlement within 12 months			(10,000)	(1,890)
Less: Deferred loan issue costs amortised over life of facility			(1,105)	-
Amounts due for settlement after more than 12 months			<u>31,484</u>	<u>59,877</u>

The Virgin Trust loan was classified as falling due after more than one year in 2005.

On 22 May 2006, the company entered into a Term Loan and Revolving Loan agreement ('the Facilities'). The Facilities comprise a £35 million term loan and a £35 million revolving credit facility. The Facilities are repayable between May 2007 and May 2011. The Facilities are secured against the assets of Virgin Money Holdings (UK) Limited, Virgin Money Limited and Virgin Money Management Services Limited and carry interest at a variable margin of between 0.60% and 1.25% over LIBOR, plus mandatory costs. The applicable margin varies according to the ratio of consolidated net debt to EBITDA for each relevant period.

The Facilities are subject to two financial covenants, which are tested quarterly.

The group is required to hedge the interest rate liabilities of not less than 50% of the utilised commitments. On 22 August 2006 the company entered into an interest rate swap to cap the rate of interest that it would pay on £25 million of the Facilities.

On 2 February 2006, the company repaid in full the loan from Virgin Trusts.

On 22 May 2006 the company repaid £48.5m of its loan from Virgin Management Limited.

On 23 November 2006, the company repaid the remainder of the loan from Virgin Management Limited.



# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

### 20. PROVISIONS FOR LIABILITIES AND CHARGES

	2006 £000	2005 £000
<i>Group</i>		
Deferred Tax	-	-
UK Card Reward Scheme	3,049	2,782
Redundancy Costs	43	500
Long Term Incentive Scheme	2,874	2,408
	<u>5,966</u>	<u>5,690</u>

The Company has no provisions for liabilities and charges

### 20.1 DEFERRED TAX

A deferred taxation asset of £4,981,607 has been recognised in the financial statements in respect of losses to be utilised against profits expected to be earned in the future. The deferred taxation asset representing all remaining tax losses (and other timing differences) which has not been included in the financial statements in accordance with the accounting policy is as follows

	2006 £000	2005 £000
<i>Group</i>		
Losses for taxation purposes carried forward	22,356	26,617
Accelerated capital allowances in advance of depreciation	2,770	2,459
Other short term timing differences	1,536	1,705
Tax losses recognised as a deferred tax asset (see note 16)	(4,981)	(2,527)
Deferred taxation asset (not recognised)	<u>21,681</u>	<u>28,254</u>
<i>Company</i>		
Losses for taxation purposes carried forward	7,706	7,294
Other short term timing differences	-	267
Deferred taxation asset (not recognised)	<u>7,706</u>	<u>7,561</u>

### 20.2 UK CARD REWARD SCHEME

	<i>Reward Scheme Provision £000</i>
At 1 January 2006	2,782
Increase in provision	828
Redemptions	(561)
At 31 December 2006	<u>3,049</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.

### 20.3 REDUNDANCY COSTS

Provision has been made for redundancy costs expected to be incurred in 2007 – see Note 9

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

### 20.4 LONG TERM INCENTIVE SCHEME

Provision has been made for amounts payable to directors and other members of the senior management team under a long term incentive scheme. These amounts reflect the directors' best estimate of the potential liability, 50% of which is payable at the end of 2007 and 50% of which is payable at the end of 2008.

### 21. SHARE CAPITAL

Class	Authorised 2006 £	Allotted, called up & fully paid 2006 No	Allotted, called up & fully paid 2006 £	Authorised 2005 £	Allotted, called up & fully paid 2005 No	Allotted, called up & fully paid 2005 £
Virgin A Ordinary shares of 0.1p each	800	100,000	100	800	100,000	100
	800	100,000	100	800	100,000	100

The Virgin A Ordinary shares of 0.1p each have equal rights

### 22 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital £'000	Distributable Capital Reserve £'000	Profit & Loss £'000	Total £'000
<b>Group</b>				
At 1 January 2006	-	23,354	(64,981)	(41,627)
Profit for the Year	-	-	12,603	12,603
At 31 December 2006	-	23,354	(52,378)	(29,024)
<b>Company</b>				
At 1 January 2006	-	23,354	1,388	24,742
Loss for the Year	-	-	(2,861)	(2,861)
At 31 December 2006	-	23,354	(1,473)	21,881

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

### 23. NOTES TO THE CASH FLOW STATEMENT

#### a) Reconciliation of operating profit to net cash inflow from operating activities

	2006 £000	2005 £000
Operating profit	13,966	8,166
Cash costs of fundamental restructuring	(1,163)	(685)
Depreciation and amortisation	1,339	1,657
Loss on disposal of fixed assets	18	31
Decrease / (increase) in operating debtors and prepayments	5,839	(3,387)
Increase / (decrease) in operating creditors and accruals	5,855	(1,168)
Increase in other provisions	733	3,629
Net cash inflow from operating activities	26,587	8,243

#### b) Analysis of net debt

	At 1 January 2006 £000	Cash flow £000	Non Cash 31 December Movements £000	At 2006 £000
Cash at bank and in hand	10,786	1,988	-	12,774
Bank and related party loans due in one year (note 18)	(1,890)	(8,110)	-	(10,000)
Bank and related party loans due after one year (note 19)	(56,034)	24,034	-	(32,000)
Rolled up interest on bank and related party loans	(3,843)	3,843	(589)	(589)
Loan issue costs (shown as part of servicing of finance on face of cash flow)	-	1,339	(234)	1,105
	(50,981)	23,094	(823)	(28,710)

The non-cash movements relate to interest accrued in the year and the amount of issue costs recognised in the year

### 24. 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 Holdings (UK) Limited group

The group incurred licence fees of £353,280 (2005 £703,426) to Virgin Enterprises Limited, in which the ultimate shareholder of the group has an interest. The amount receivable at the end of the year was £18,950 (2005 payable £43,817)

The group incurred credit card commissions and air mile charges of £4,199,233 (2005 £1,959,827) to Virgin Atlantic Airways Limited, in which the ultimate shareholder of the group has an interest. The balance outstanding at the end of the year was £1,152,546 (2005 £225,075)

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2006

**25 CAPITAL COMMITMENTS**

The group had capital commitments of £791,000 (2005 £179,000) at the balance sheet date

**26. 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 (2005 £Nil)

**27. ULTIMATE CONTROLLING PARTY**

The company's immediate parent undertaking is Virgin Group Investments Limited, a company incorporated in the British Virgin Islands. The company's ultimate controlling party is Virgin Group Holdings Limited, a company incorporated in the British Virgin Islands.

The group's results are not consolidated by any of the company's parent companies.