

Virgin Direct Personal Finance Limited

Directors' Report and Financial Statements

For the period ended 31 December 2000



Virgin Direct Personal Finance Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2000

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Virgin Direct Personal Finance Limited

Registered in England No. 3414708

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

William Gorman
Keith George Hodgkinson
Gordon Douglas McCallum
Norman Cardie McLuskie
Timothy Cardwell Wade

SECRETARY

John Albert Lea

AUDITORS

Deloitte & Touche
39 George Street
Edinburgh
EH2 2HZ

BANKERS

The Royal Bank of Scotland plc
Norwich Branch
5 Queen Street
Norwich
NR2 4TL

REGISTERED OFFICE

Waterhouse Square
138-142 Holborn
London EC1N 2TH

Virgin Direct Personal Finance Limited

DIRECTORS' REPORT

for the period ended 31 December 2000

The directors present their annual report and the audited financial statements for the 15 month period to 31 December 2000.

RESULTS AND DIVIDENDS

The loss for the period ended 31 December 2000 amounted to £9,019,000 (12 months to 30 September 1999 - £13,189,000 loss). The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Company is a joint venture between Virginmoney Ltd. and The Royal Bank of Scotland plc. The principal activity is the marketing and administration of the Virgin *One* account, a personal bank account with The Royal Bank of Scotland which is secured against the customer's home. Services to the Company are provided by both partners in the venture.

During the period, a number of marketing campaigns were undertaken, focussing primarily on press advertising and advertorials with tabloid newspapers. The internet has been successfully developed as both a sales and service delivery mechanism and now forms a significant part of both the sales and service proposition to customers. The *One* account is now a recognised force in the flexible mortgage market and is in a position to develop from the foundation that has been established. Recently acquired further administration space will allow for expansion of back office staff numbers, particularly as the number of live and active accounts grows.

TANGIBLE FIXED ASSETS

Details of the Company's tangible fixed assets are in Note 7 to the accounts.

DIRECTORS

The names of the current directors are listed on page 2.

The following changes have taken place since 1 October 1999:

On 31 July 2000, Mr. Stephen Thomas Matthew Murphy resigned as a director of the Company.

On 31 July 2000, Mr. Gordon Douglas McCallum was appointed as a director of the Company.

On 9 September 2000, Mr. Peter Thomas Johnson resigned as a director of the Company.

On 1 January 2001, Mr. Timothy Cardwell Wade was appointed as a director of the Company. Mr. Wade is currently an alternate director to Mr. Gorman.

SECRETARY

The following changes have taken place since 1 October 1999:

On 20 November 2000, Mr. Alan Wallace McKean resigned as secretary of the Company.

On 20 November 2000, Mr. John Albert Lea was appointed as secretary of the Company.

EMPLOYEE INVOLVEMENT

During the period, the policy of providing employees with information about the Company has been continued through weekly newsletters and the intranet site. There are also regular events within which management share results and targets with the employees and at which staff suggestions and queries are encouraged. Employees participate in the success of the business through the performance related bonus scheme.

DISABLED EMPLOYEES

The Company 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 Company's policy, wherever practicable, to provide continuing employment under normal terms and conditions. It is also the Company's policy to provide training, career development and promotion to disabled employees wherever appropriate.

ACCOUNTING REFERENCE DATE

On 25 May 2000 the accounting reference date of the Company was changed from 30 September to 31 December.

Virgin Direct Personal Finance Limited

DIRECTORS' REPORT (continued)

for the period ended 31 December 2000

DIRECTORS' INTERESTS

No director had an interest in the shares of the Company. The following directors were beneficially interested in the 25p ordinary shares of The Royal Bank of Scotland Group plc, the ultimate holding Company.

	At 31 December 2000	At 1 October 1999
K G Hodkinson	30,616	18,725
N C McLuskie	140,385	86,832

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised by directors during the period to 31 December 2000 are included in the table below

	As at 1 October 1999	Post AVS adjustment on 1.10.99 figure	Options granted Number	Options granted Price	Options exercised Number	Options exercised Price	As at 31 December 2000
K G Hodkinson	55,684	60,010	150	12.40	1,161	2.97	33,453
			7,500	12.87	33,388	5.58	
			342	9.85			
N C McLuskie	251,199	270,849	33,291	7.81	533	2.97	73,113
			150	12.40	144,536	4.96	
			90	9.85	49,544	5.58	
					20,479	3.98	
					16,175	3.70	

No director had an interest in any of the preference shares of The Royal Bank of Scotland Group plc during the period to 31 December 2000. In addition, during the period, none of the directors held a beneficial interest in the loan capital of The Royal Bank of Scotland Group plc or in the share or loan capital of The Royal Bank of Scotland plc or of any other subsidiaries, including the Company.

POST BALANCE SHEET EVENTS

During January 2001, the shareholders of the Company have injected a further £2,400,000 of working capital to enable the Company to develop the recently acquired administration space and to finance further marketing activity to grow the business.

On 4 January 2001, the Company acquired an operating lease on the building adjacent to its current administration centre. The lease on this building is for 14 years at an annual rental of £113,000.

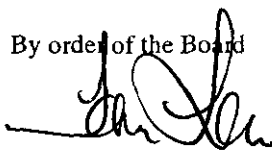
CHARITABLE AND POLITICAL DONATIONS

During the period the Company made charitable donations of £3,000. No political donations were made.

AUDITORS

Messrs. PricewaterhouseCooper resigned as auditors on 21 March 2000 and the directors appointed Messrs. Deloitte & Touche in their place. Messrs. Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

By order of the Board


J Lea
Secretary

15 February 2001

Virgin Direct Personal Finance Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the directors are required to:

- * select suitable accounting policies and then apply them consistently;
- * state whether applicable accounting standards have been followed;
- * make judgements and estimates that are reasonable and prudent; 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.

The directors confirm that these financial statements comply with the aforementioned requirements.

AUDITORS' REPORT TO THE MEMBERS OF VIRGIN DIRECT PERSONAL FINANCE LIMITED

Respective responsibilities of directors and auditors

Basis of opinion

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.

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2000 and of its loss and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

John A. Biele

Deloitte & Touche
Chartered Accountants and Registered Auditors
Edinburgh

15 February 2001

Virgin Direct Personal Finance Limited

PROFIT AND LOSS ACCOUNT for the period ended 31 December 2000

	Notes	15 month period ended 31 December 2000 £000	Year ended 30 September 1999 £000
TURNOVER	2	25,545	4,227
Operating expenses		(38,084)	(19,286)
OPERATING LOSS	3	<u>(12,539)</u>	<u>(15,059)</u>
Bank interest receivable		380	188
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(12,159)</u>	<u>(14,871)</u>
Tax on loss on ordinary activities	6	3,140	1,682
LOSS FOR THE PERIOD	12	<u><u>(9,019)</u></u>	<u><u>(13,189)</u></u>

All operations of the Company are continuing.

There were no other recognised gains or losses in the period, other than the loss for the period as reported above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the period stated above, and their historical cost equivalents.

Virgin Direct Personal Finance Limited

BALANCE SHEET at 31 December 2000

	Notes	As at 31 December 2000 £000	As at 30 September 1999 £000
FIXED ASSETS			
Tangible assets	7	3,581	2,724
		<u>3,581</u>	<u>2,724</u>
CURRENT ASSETS			
Debtors	8	5,532	3,174
Cash at bank and in hand		3,501	289
		<u>9,033</u>	<u>3,463</u>
CREDITORS : amounts falling due within one year	9	5,918	2,472
NET CURRENT ASSETS		<u>3,115</u>	<u>991</u>
NET ASSETS		<u><u>6,696</u></u>	<u><u>3,715</u></u>
CAPITAL AND RESERVES			
Called up share capital	11	42,000	30,000
Profit and loss account	12	(35,304)	(26,285)
EQUITY SHAREHOLDERS' FUNDS		<u><u>6,696</u></u>	<u><u>3,715</u></u>

The financial statements on pages 7 to 14 were approved by the Board of Directors on 15 February 2001

M C M Pini

Director

W. J. P. Pini

Virgin Direct Personal Finance Limited

CASH FLOW STATEMENT

for the period to 31 December 2000

	Notes	15 months ended 31 December 2000 £000	Year ended 30 September 1999 £000
CONTINUING OPERATING ACTIVITIES			
Operating loss		(12,539)	(15,059)
Depreciation		1,349	739
Loss on disposal of assets		105	7
Increase in debtors and prepayments		(2,804)	(389)
Increase in stock		41	(105)
Increase / (decrease) in trade creditors		433	(1,198)
Increase in accruals		2,618	938
Increase in other creditors		283	259
Net cash outflow from continuing operating activities		<u>(10,514)</u>	<u>(14,815)</u>
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest Received		380	188
TAXATION			
Receipt of Consortium Relief		3,545	-
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(2,214)	(1,694)
Sale of tangible fixed assets		<u>15</u>	<u>533</u>
		<u>(2,199)</u>	<u>(1,161)</u>
CASH FLOW BEFORE FINANCING		<u>(8,788)</u>	<u>(15,788)</u>
FINANCING			
Issue of ordinary shares		12,000	14,000
Increase in cash in the period	10	<u>3,212</u>	<u>(1,781)</u>

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2000

1 PRINCIPAL ACCOUNTING POLICIES

Fundamental Accounting Concept

The Company is dependent on continuing finance being made available by its shareholders to enable it to continue operating and meet liabilities as they fall due. The shareholders have agreed to provide sufficient funds to the Company for these purposes. The directors therefore consider it appropriate to prepare the accounts on a going concern basis.

Basis of accounting

The financial statements have been prepared under the historical cost convention of accounting and in accordance with applicable Accounting Standards in the United Kingdom.

Tangible fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is provided on a straight line basis in order to write off the cost of fixed assets less their appropriate residual value over their estimated useful lives. Depreciation is charged from the date assets are brought into use. The time period being used is 4 years for all fixed assets, except computer hardware (5 years).

Development expenditure

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

Deferred taxation

Deferred taxation is calculated using the liability method on all timing differences, but is only provided for where the amount is likely to become payable in the foreseeable future.

Operating leases

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

Provisioning

Specific bad debt provisions are recognised in line with standard Royal Bank of Scotland policy, that is, after a defined period of account management and subsequent transfer of administration to Retail Credit Services. The Company is liable for bad debts and both specific and general provisions are charged through the profit and loss account.

2 TURNOVER

Turnover is principally attributable to one continuing activity, the marketing of the Virgin One account. Turnover is derived from the margin between interest paid by customers on their bank accounts and the funding cost of the assets required to match these customer balances on The Royal Bank of Scotland balance sheet. In addition, the Company receives a fee from Virgin Direct Life Limited for the introduction (and subsequent sale) of life insurance to its customers.

3. OPERATING LOSS

	Period ended 31 December 2000 £000	Year ended 30 September 1999 £000
Operating loss is stated after charging:		
Auditors' remuneration	22	24
Depreciation of tangible owned fixed assets	1,349	739
Operating lease rentals - land and buildings	554	178

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2000

4 DIRECTORS' EMOLUMENTS

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

	Period ended 31 December 2000 £000	Year ended 30 September 1999 £000
5 EMPLOYEE INFORMATION		
Staff costs		
Wages and salary costs	13,781	4,657
Social Security costs	1,450	450
	<u>15,231</u>	<u>5,107</u>
Less Long Term Incentive Scheme Payments made by Virginmoney and Virgin Direct Limited (see note 14)	(3,347)	-
	<u>11,884</u>	<u>5,107</u>

The average monthly number of persons employed was as follows:	2000	1999
Call Centre & Administration	326	177
Non Operational	98	65
	<u>424</u>	<u>242</u>

6 TAX ON LOSS ON ORDINARY ACTIVITIES	2000 £000	1999 £000
Current period		
Consortium relief receivable for current period	1,277	-
Prior year adjustment		
Consortium relief for 1999 (prior year - 1998) losses	1,863	1,682
Tax credit through profit and loss account	<u>3,140</u>	<u>1,682</u>

Tax losses of approximately £18.5 million are available to carry forward against future trading profits.

The apparent effective rate of taxation is low due to consortium relief only being claimed by one of the parties to the joint venture, the Royal Bank of Scotland plc. This has resulted in only 50% of available losses being relieved at a discounted rate.

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2000

7	TANGIBLE FIXED ASSETS	Hardware	Software	Fixtures & Fittings	Total
		£000	£000	£000	£000
	Cost:				
	At 1 October 1999	1,806	439	1,362	3,607
	Additions	1,378	497	484	2,359
	Disposals	-	(234)	(355)	(589)
	At 31 December 2000	<u>3,184</u>	<u>702</u>	<u>1,491</u>	<u>5,377</u>
	Depreciation:				
	At 1 October 1999	421	171	291	883
	Provided during the year	636	181	532	1,349
	Disposals	-	(195)	(241)	(436)
	At 31 December 2000	<u>1,057</u>	<u>157</u>	<u>582</u>	<u>1,796</u>
	Net book value at 31 December 2000	<u>2,127</u>	<u>545</u>	<u>909</u>	<u>3,581</u>
	Net book value at 1 October 1999	<u>1,385</u>	<u>268</u>	<u>1,071</u>	<u>2,724</u>
8	DEBTORS: amounts falling due within one year			Period ended 31 December	Year ended 30 September
				2000	1999
				£000	£000
	Prepayments			415	123
	Stock			122	163
	Amount due from Virgin Direct Management Services Ltd			1,140	533
	Amount due from Virginmoney Ltd			47	10
	Amount due from The Royal Bank of Scotland plc - current balances			2,531	2,345
	Amount due from The Royal Bank of Scotland plc - consortium relief			1,277	-
				<u>5,532</u>	<u>3,174</u>
9	CREDITORS: amounts falling due within one year			2000	1999
				£000	£000
	Trade creditors			568	135
	Accruals			4,727	1,997
	Amount due to Virgin Direct Management Services Ltd.			620	336
	Amount due to Virginmoney Ltd.			3	4
				<u>5,918</u>	<u>2,472</u>
10	RECONCILIATION OF MOVEMENT IN NET DEBT				
		At 30 September	Net cash flow	At 31 December	
		1999		2000	
		£000	£000	£000	
	Cash in hand and at bank	<u>289</u>	<u>3,212</u>	<u>3,501</u>	

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2000

11	CALLED UP SHARE CAPITAL	2000 No.	2000 £000	1999 No.	1999 £000
	<i>Authorised</i>				
	"A" Ordinary shares of £1 each	50,000,000	50,000	50,000,000	50,000
	"B" Ordinary shares of £1 each	50,000,000	50,000	50,000,000	50,000
	<i>Allotted, called up and fully paid</i>				
	"A" Ordinary shares of £1 each	21,000,001	21,000	15,000,001	15,000
	"B" Ordinary shares of £1 each	21,000,000	21,000	15,000,000	15,000

On 4 October 1999 the issued share capital was increased to £35,000,001 by the issue of 2,500,000 "A" Ordinary Shares of £1 each and 2,500,000 "B" Ordinary Shares of £1 each.

On 4 February 2000 the issued share capital was increased to £39,000,001 by the issue of 2,000,000 "A" Ordinary Shares of £1 each and 2,000,000 "B" Ordinary Shares of £1 each.

On 6 April 2000 the issued share capital was increased to £41,000,001 by the issue of 1,000,000 "A" Ordinary Shares of £1 each and 1,000,000 "B" Ordinary Shares of £1 each.

On 15 December 2000 the issued share capital was increased to £42,000,001 by the issue of 500,000 "A" Ordinary Shares of £1 each and 500,000 "B" Ordinary Shares of £1 each.

In every case, the "A" Ordinary Shares were allotted to The Royal Bank of Scotland plc and the "B" Ordinary Shares were allotted to Virginmoney Ltd and the consideration for issued shares was cash.

12 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £000	Profit and loss account £000	Total share- holders' funds £000
At 30 September 1999	30,000	(26,285)	3,715
Loss for the period	-	(9,019)	(9,019)
Share capital issued	12,000	-	12,000
At 31 December 2000	<u>42,000</u>	<u>(35,304)</u>	<u>6,696</u>
Attributable to:			
Equity interests			<u>6,696</u>

13 OTHER FINANCIAL COMMITMENTS

At 31 December 2000 the Company had annual commitments under non-cancellable operating leases as set out below:

Land and Buildings	2000 £000	1999 £000
Operating leases which expire:		
In under five years	66	-
In over five years	312	436

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2000

14 RELATED PARTY TRANSACTIONS

		Period ended	Year ended
		31 December	30 September
		2000	1999
		£000	£000
The Company has undertaken transactions with related parties as shown below:			
Capital Introduced			
The Royal Bank of Scotland plc	Provision of share capital ("A" shares)	6,000	7,000
Virginmoney Limited	Provision of share capital ("B" shares)	6,000	7,000
Profit and Loss Account items			
Virginmoney Limited	Payment for use of Virgin trademark	(36)	(9)
	Receipt of consortium relief	-	10
Virgin Direct Management Services Limited	Services under SLA	785	(579)
	Marketing costs	291	(415)
The Royal Bank of Scotland plc	Services under SLA	(2,174)	(1,240)
	Turnover and interest receivable	25,925	4,415
	Receipt of consortium relief	1,863	1,672
Balance Sheet items			
Virginmoney Limited	Amounts due from at period end	44	6
Virgin Direct Management Services Limited	Amounts due from at period end	520	197
The Royal Bank of Scotland plc	Amounts due from at period end	3,808	2,345
	Bank balance	3,501	289

The above transactions are charged in accordance with the Service Level Agreements (SLA) in place between the Company and the related parties shown above and are thus not necessarily charged at arms length.

Virgin Direct Management Services Limited is an associated company in the Virgin Direct group of companies and provides technology and marketing services to the Company. In the year ended 30 September 1999, the Company sold assets to Virgin Direct Management Services Limited for £533,000.

In addition, Virginmoney Limited made a payment of £1,842,000 to staff under the terms of the Long Term Incentive Scheme.

A payment under the same scheme of £1,505,000 was also made by Virgin Direct Limited, an associated company in the Virgin Direct group. These payments have no impact on the results of Virgin Direct Personal Finance Ltd.

15 ULTIMATE PARENT COMPANY

The Company's immediate parent company is The Royal Bank of Scotland plc which is incorporated in Scotland.

The Company's ultimate parent company is The Royal Bank of Scotland Group plc which is incorporated in Scotland.

Accounts for the ultimate parent company can be obtained from The Royal Bank of Scotland Group plc,
42 St. Andrew Square, Edinburgh EH2 2YE.