

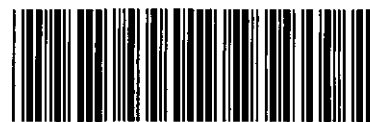
**The Virgin Clothing Company Limited**

Directors' report and financial  
statements

Registered number 3196828

Year ended 31 March 2006

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## **Directors' report**

The directors present their directors' report and financial statements for the year ended 31 March 2006.

### **Principal activities**

The principal activity of the company is the licensing of the Virgin Clothing name.

### **Business review**

During the year the company continued to trade under the international licensing arrangement with Unique Commerce and Fast Fashion. On the 6<sup>th</sup> April 2005 Unique Commerce was placed in administration.

### **Business key performance indicators**

The Directors continually review the most appropriate and effective measures of the company's progress towards achieving its strategies and objectives. The following measures are continually monitored:

- Clothing licensing opportunities
- Property rental opportunities
- Property rental rates.

### **Business Risk**

- Saturation of retail properties on the market reducing rental value
- Rental trends and location preferences
- Franchisee success impacting on franchise income

### **Proposed dividend**

The directors do not recommend payment of a final dividend (2005: £nil). The profit for the year has been transferred to reserves.

### **Directors and directors' interests**

The directors who held office during the year were as follows:

John Jackson

Ros Simmons

David Rutherford

Clive Bruce (resigned 6<sup>th</sup> May 2005)

The beneficial interests of the directors who held office at the end of the year in the shares of Victory Corporation PLC are disclosed in the accounts of that company.

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company or any other group company, other than disclosed above.

### **Disclosure of information to auditors**

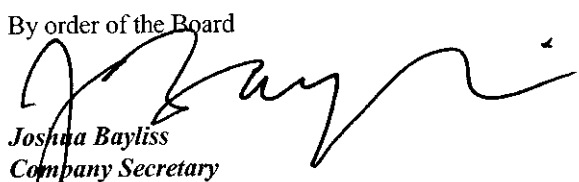
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he/ she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## **Directors' Report** *(continued)*

### **Auditors**

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG Audit PLC will therefore continue as the company's auditors.

By order of the Board



**Joshua Bayliss**  
**Company Secretary**

Salisbury House  
City Fields  
Tangmere  
Chichester  
West Sussex  
PO20 2FP

30 January 2007

## **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 financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 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 company and to prevent and detect fraud and other irregularities.



## KPMG Audit Plc

Dukes Keep  
Marsh Lane  
Southampton  
SO14 3EX  
United Kingdom

### **Independent auditors' report to the members of The Virgin Clothing Company Limited**

We have audited the financial statements of The Virgin Clothing Company Limited for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet 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 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 3.

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 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.

**Independent auditors' report to the members of Virgin Clothing Company Limited** *(continued)*

**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 company's affairs as at 31 March 2006 and of its 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 Audit Plc*

**KPMG Audit Plc**  
*Chartered Accountants*  
*Registered Auditor*

**31 JANUARY 2007**

## Profit and loss account

for the year ended 31 March 2006

	<i>Note</i>	<b>2006</b> <b>£000</b>	2005 £000
<b>Turnover</b>	<i>1</i>	<b>245</b>	367
Cost of sales		-	-
		<hr/>	<hr/>
<b>Gross profit</b>		<b>245</b>	367
Administrative expenses	<i>3</i>	<b>(136)</b>	4
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>	<i>2-3</i>	<b>109</b>	371
Tax on profit on ordinary activities	<i>4</i>	<b>41</b>	(59)
		<hr/>	<hr/>
<b>Profit on ordinary activities after taxation and retained profit for the year</b>	<i>10</i>	<b>150</b>	312
		<hr/>	<hr/>

There is no difference between result on ordinary activities and retained result for the financial year and their historical cost equivalents.

The retained profit for the year reported above all relates to continuing operations.

A statement of total recognised gains and losses has not been included as part of these financial statements as the company made no gains or losses in the year other than those disclosed above in the profit and loss account.

**Balance sheet**  
 at 31 March 2006

	Note	2006 £000	2005 £000	£000
<b>Current assets</b>				
Debtors	7	310	298	
Cash		2,623	2,410	
		<u>2,933</u>	<u>2,708</u>	
<b>Creditors: amounts falling due within one year</b>	8	(510)	(435)	
<b>Net current assets</b>			<u>2,423</u>	2,273
<b>Net assets</b>			<u>2,423</u>	<u>2,273</u>
<b>Capital and reserves</b>				
Called up share capital	9	15	15	
Share premium account	10	1,564	1,564	
Profit and loss account	10	844	694	
<b>Equity shareholders' funds</b>	11	<u>2,423</u>	<u>2,273</u>	

These financial statements were approved by the board of directors on 29 January 2007 and were signed on its behalf by:



**David Rutherford**  
 Director

## Notes

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- FRS 28 'Corresponding amounts'

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The adoption of FRS 21 'Events after the balance sheet date' had no material impact on the financial statements and did not require any prior year adjustment.

#### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Victory Corporation PLC, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements, within which this Company is included, can be obtained from the address given in note 14.

The financial statements have been prepared on a going concern basis. The company is reliant on the continued support of its parent company, Victory Corporation PLC, which has confirmed that it will provide sufficient funds to enable the company to continue its normal trading activities and pay its debts as and when they fall due for the foreseeable future, being at least one year from the date of approval of these financial statements.

#### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

#### *Leases*

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

#### *Taxation*

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

Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

## Notes (continued)

### 1 Accounting policies (continued)

#### Turnover

Turnover represents the amount (excluding value added tax) derived from the provision of goods and services to customers. License income is recognised only when receipt is virtually certain and royalty income is recognised on an accruals basis.

### 2 Notes to the profit and loss account

	2006 £000	2005 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Depreciation and other amounts written off tangible fixed assets:		
Owned	-	3
Hire of other assets – operating leases	418	419

Audit fees are paid by the parent company, Victory Corporation PLC. Details of the audit fee can be found in the financial statements of Victory Corporation PLC.

### 3 Remuneration of directors

No directors' remuneration was paid by this company in the current or previous financial year as all directors are paid by other group companies. Details of directors' remuneration can be found in the financial statements of Victory Corporation PLC.

### 4 Taxation

<i>Analysis of charge in period</i>	2006 £000	2005 £000
<i>UK corporation tax</i>		
Current tax on income for the period	-	59
Adjustments in respect of prior periods	(41)	-
Total current tax/Tax on profit on ordinary activities	(41)	59

#### Factors affecting the tax charge for the current period

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 explained below.

<i>Current tax reconciliation</i>	2006 £000	2005 £000
Profit on ordinary activities before taxation	109	371
Current tax at 30% (2005: 30%)	32	111
<i>Effects of:</i>		
Expenses not deductible for tax purposes	3	41
Capital allowances in excess of depreciation	-	(96)
Utilisation of tax losses brought forward	(60)	-
Tax losses not utilised or not recognised	26	-
Other timing differences	(1)	3
Adjustments to tax charge in respect of previous periods	(41)	-
Total current tax charge (see above)	(41)	59

## Notes (continued)

### 4 Taxation (continued)

#### Factors that may affect future current and total tax charges

Details of the company's total provided and unprovided deferred tax assets at the period end (and prior period end) are shown in the table below. A deferred tax asset has only been recognised to the extent that there is a reasonable expectation that the asset will reverse in the foreseeable future.

	2006 Provided £000	2006 Unprovided £000	2005 Provided £000	2005 Unprovided £000
Excess of capital allowances over depreciation	-	(290)	-	(290)
Other timing differences	-	(4)	-	(5)
UK tax losses	-	(3,802)	-	(3,836)
	<u>-</u>	<u>(4,096)</u>	<u>-</u>	<u>(4,131)</u>

### 5 Tangible fixed assets

	Computer Equipment £000
<b>Cost</b>	
At 1 April 2005 and at 31 March 2006	19
<b>Depreciation</b>	
At 1 April 2005	19
Charge for year	-
31 March 2006	19
<b>Net book value</b>	
At 31 March 2006	-
At 31 March 2005	-

### 6 Fixed asset investments

Fixed asset investments relate to the company's investment in the company listed below. This was purchased at cost of £1 (2005: £1) and has a net book value of £1 (2005: £1).

	Country of incorporation	Principal activity	Class and percentage of shares held
<b>Subsidiary undertakings</b>			
Classboss Limited	England and Wales	Dormant	Ordinary 100%

## Notes (continued)

### 7 Debtors

	2006 £000	2005 £000
Trade debtors	187	178
Other debtors	3	25
Prepayments and accrued income	120	95
	<u>310</u>	<u>298</u>

### 8 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	244	98
Amounts owed to group undertakings	6	11
Tax and social security	18	59
Accruals and deferred income	242	267
	<u>510</u>	<u>435</u>

### 9 Called up share capital

	2006 £000	2005 £000
<i>Authorised</i>		
1,587,936 Ordinary shares of 1p each	16	16
<i>Allotted, called up and fully paid</i>		
1,551,744 Ordinary shares of 1p each	15	15

### 10 Share premium and reserves

	Share premium account £000	Profit and loss account £000
At 1 April 2005	1,564	694
Retained profit for the year	-	150
<b>At 31 March 2006</b>	<u>1,564</u>	<u>844</u>

## Notes (continued)

### 11 Reconciliation of movements in shareholders' funds

	2006 £000	2005 £000
Profit for the financial year/net addition to shareholders' funds	150	312
Opening shareholders' funds	2,273	1,961
Closing shareholders' funds	2,423	2,273

### 12 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2006		2005	
	Land and buildings £000	Total £000	Land and buildings £000	Total £000
Operating leases which expire:				
In the second to fifth years inclusive	-	-	187	187
Over five years	418	418	232	232
	418	418	419	419

In addition to the above at the end of the financial year, the company was party to a group overdraft facility with Victory Corporation PLC, Virgin Vie at Home Limited (formerly The Virgin Cosmetics Company Limited), Virgin Vie at Home (Marketing) Limited (formerly The Virgin Cosmetics (Marketing) Company Limited), Virgin Vie at Home (Purchasing) Limited (formerly The Virgin Cosmetics (Purchasing) Company Limited), Virgin Clothing and Cosmetics Company Limited, Victory Retail Limited and Virgin Vie at Home US Purchasing Limited (formerly The Virgin Cosmetics US Purchasing Company Limited).

### 13 Related party transactions

Under Financial Reporting Standard 8 "Related Party Disclosures" the company is exempt from the requirement to disclose related party transactions with Victory Corporation plc and its subsidiary undertakings, on the grounds that it is a wholly owned subsidiary undertaking of Victory Corporation plc.

As at 31 March 2006, the directors consider that the ultimate controlling party was Virgin Group Investments Limited.

Name of related party	Type of transaction	Value £000	Balance at 31 March 2006 asset/(liabilities) £000
Virgin Management Limited	Provision of tax, trademarks and company secretarial	(1)	-
Virgin Enterprises Limited	License provision	(78)	(111)

## **Notes** *(continued)*

### **14 Ultimate parent company and parent undertaking of larger group of which the company is a member**

The company is a wholly owned subsidiary undertaking of Victory Corporation PLC registered in England and Wales.

The largest group in which the results of the company for the year are consolidated is that headed by Victory Corporation plc. The consolidated accounts of Victory Corporation plc are available to the public and may be obtained from Salisbury House, City Fields Business Park, Tangmere, Chichester, West Sussex, PO20 2FP. The results of the company for part of the year are included in the consolidated accounts of Virgin Hotels Group Limited. No other group accounts include the results of the company.

As at 31 March 2006 the company's ultimate parent undertaking was Virgin Group Investments Limited, a company incorporated in the British Virgin Islands. As at that date, the principal shareholders of Virgin Group Investments Limited were certain trusts, none of which, individually had a controlling interest in Virgin Group Investments Limited. The principal beneficiaries of those trusts were Sir Richard Branson and/or members of his immediate family.