

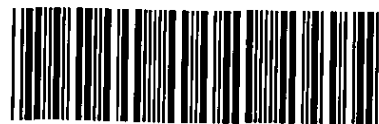
The Virgin Clothing Company Limited

**Directors' report and financial
statements**

Registered number 3196828

Year ended 31 March 2007

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Directors' report

The directors present their directors' report and financial statements for the year ended 31 March 2007

Principal activities

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

Business Review

The loss for the year amounted to £33,000 (*2006 profit of £150,000*)

Going concern

The financial statements have been prepared on a going concern basis in view of the fact that the parent undertaking Virgin Group Holdings Limited has formally indicated that it is its present intention to provide sufficient funding to the Company, to enable it to meet its liabilities as they fall due, for at least the next twelve months from the date of signing this report

The directors have no reason to believe that the parent company will not be in a position to provide the support referred to above and, accordingly, they have prepared the financial statements on the going concern basis

Proposed dividend

The directors do not recommend payment of a final dividend (*2006 £nil*) The loss for the year has been transferred to reserves

Directors

The directors who held office during the year were as follows

John Jackson

Ros Simmons

David Rutherford

Disclosure of information to auditors

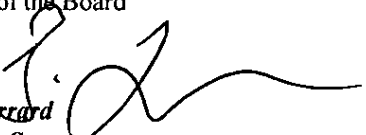
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he/ she ought to have taken as a director to 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 LLP will therefore continue as the company's auditors

By order of the Board



Barry Gerrard
Company Secretary

Registered Office.

Salisbury House
City Fields
Tangmere
Chichester
West Sussex
PO20 2FP

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 LLP

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 2007 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 2007 and of its loss 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
Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 March 2007

	<i>Note</i>	2007 £000	2006 £000
Turnover	<i>1</i>	173	245
Cost of sales		-	-
		<hr/>	<hr/>
Gross profit		173	245
Administrative expenses		(200)	(136)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation	<i>2-3</i>	(27)	109
Tax on profit on ordinary activities	<i>4</i>	(6)	41
		<hr/>	<hr/>
(Loss)/profit on ordinary activities after taxation and retained profit for the year	<i>11</i>	(33)	150
		<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

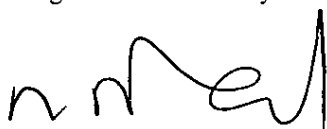
The notes on pages 8-13 form part of these financial statements

Balance sheet
at 31 March 2007

	<i>Note</i>		2007	2006
		£000	£000	Restated £000
Current assets				
Debtors	7	205		310
Cash		2,525		2,623
		2,730		2,933
Creditors amounts falling due within one year	8	(252)		(425)
Net current assets			2,478	2,508
Provisions for liabilities	9		(88)	(85)
Net assets			2,390	2,423
Capital and reserves				
Called up share capital	10		15	15
Share premium account	11		1,564	1,564
Profit and loss account	11		811	844
Equity shareholders' funds	12		2,390	2,423

The notes on pages 8-13 form part of these financial statements

These financial statements were approved by the board of directors on 31 January 2008 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 FRS 20 'Share based payments' has been adopted for the first time. The adoption of FRS 20 'Share based payments' has been assessed by the directors as having no material impact on the company. Accordingly no amounts have been recorded in these financial statements.

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 Virgin Hotels Group Limited, 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 15.

The financial statements have been prepared on a going concern basis in view of the fact that the parent undertaking Virgin Group Holdings Limited has formally indicated that it is its present intention to provide sufficient funding to the Company, to enable it to meet its liabilities as they fall due, for at least the next twelve months.

The directors have no reason to believe that the parent company will not be in a position to provide the support referred to above and, accordingly, they have prepared the financial statements on the going concern basis.

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 account 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

Licence 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

	2007 £000	2006 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Depreciation and other amounts written off tangible fixed assets		
Hire of other assets – operating leases	418	418
	<u>418</u>	<u>418</u>

Victory Corporation Limited negotiate a composite audit fee for the audit and that of its subsidiaries. There is no allocation of the cost of the audit to the subsidiary entities. Accordingly, the company has no charge in its profit and loss account in relation to audit work. If a fee was allocated, £2,600 would be charged (2006 £1,500)

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 Limited and Virgin Vie At Home Limited.

No persons are employed by the company.

Notes (continued)

4 Taxation

<i>Analysis of charge in period</i>	2007	2006
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period	-	-
Adjustments in respect of prior periods	-	(41)
<i>Foreign corporation tax</i>		
Foreign tax suffered	(6)	-
	<hr/>	<hr/>
Total current tax/Tax on profit on ordinary activities	(6)	(41)
	<hr/>	<hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2006 lower) than the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are explained below

	2007	2006
	£000	£000
<i>Current tax reconciliation</i>		
Profit/ (Loss) on ordinary activities before taxation	(27)	109
	<hr/>	<hr/>
Current tax at 30% (2006 30%)	(8)	32
<i>Effects of</i>		
Expenses not deductible for tax purposes	3	3
Utilisation of tax losses brought forward	(33)	(60)
Tax losses not utilised or recognised	36	26
Other timing differences	2	(1)
Adjustments to tax charge in respect of previous periods	-	(41)
Foreign tax suffered	(6)	-
	<hr/>	<hr/>
Total current tax charge (see above)	(6)	(41)
	<hr/>	<hr/>

Factors that may affect future current and total tax charges

Details of the company's total provided and unprovided deferred tax assets of the year end (and prior year end) are shown in the table below. A deferred tax asset has not been recognised due to the uncertainty around future utilisation of tax losses

	2007	2007	2006	2006
	Provided	Unprovided	Provided	Unprovided
	£000	£000	£000	£000
Excess of capital allowances over depreciation	-	(290)	-	(290)
Other timing differences	-	(6)	-	(4)
UK tax losses	-	(3,805)	-	(3,802)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	(4,101)	-	(4,096)
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

5 Tangible fixed assets

	Computer Equipment £000
<i>Cost</i>	
At 1 April 2006 and at 31 March 2007	19
<i>Depreciation</i>	
At 1 April 2006	19
Charge for year	-
31 March 2007	19
<i>Net book value</i>	
At 31 March 2007	-
At 31 March 2006	-

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 (2006 £1) and has a net book value of £1 (2006 £1).

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

7 Debtors

	2007 £000	2006 £000
Trade debtors	62	187
Other debtors	23	3
Prepayments and accrued income	120	120
	<u>205</u>	<u>310</u>

Notes (continued)

8 Creditors: amounts falling due within one year

	2007	2006
	£000	Restated £000
Trade creditors	73	244
Amounts owed to group undertakings	8	6
Tax and social security	18	18
Accruals and deferred income	153	157
	<u>252</u>	<u>425</u>

Bank overdrafts within the company and certain of its subsidiaries (as listed in note 13) are secured by an omnibus guarantee and unlimited debenture of the Victory Corporation Limited group. At 31 March 2007 the group's overdraft balances amounted to £9,895,000 (2006 £6,778,000).

For greater clarity, the directors have, in the current period, decided to show liabilities relating to onerous leases as provisions, rather than accruals. Comparative amounts in the prior year have been restated accordingly.

9 Provisions for liabilities

	Onerous Leases £000
At beginning of year (Restated)	85
Charge to the profit and loss for the year	3
	<u>88</u>
At end of year	<u>88</u>

10 Called up share capital

	2007	2006
	£000	£000
<i>Authorised</i>		
1,587,936 Ordinary shares of 1p each	16	16
	<u>16</u>	<u>16</u>
<i>Allotted, called up and fully paid</i>		
1,551,744 Ordinary shares of 1p each	15	15
	<u>15</u>	<u>15</u>

11 Share premium and reserves

	Share premium Account £000	Profit and loss account £000
At 1 April 2006	1,564	844
Retained profit for the year	-	(33)
	<u>1,564</u>	<u>811</u>
At 31 March 2007	<u>1,564</u>	<u>811</u>

Notes (continued)

12 Reconciliation of movements in shareholders' funds

	2007 £000	2006 £000
Profit for the financial year/net addition to shareholders' funds	(33)	150
Opening shareholders' funds	2,423	2,273
Closing shareholders' funds	2,390	2,423

13 Commitments

Annual commitments under non-cancellable operating leases are as follows

	2007		2006	
	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	231	231	418	418
	<u>418</u>	<u>418</u>	<u>418</u>	<u>418</u>

As described in note 8, at the end of the financial year, the company was party to a group overdraft facility with Virgin Vie At Home Limited, Victory Retail Limited, Virgin Clothing & Cosmetics Company Limited, Virgin Vie At Home (Purchasing) Limited, Virgin Vie At Home Marketing Limited, Virgin Vie At Home US Purchasing Limited and Victory Corporation Limited

14 Related party transactions

Under FRS 8 the company is exempt from the requirement to disclose related party transactions with Virgin Hotels Group Ltd and its subsidiary undertakings on the grounds that it is a wholly owned subsidiary undertaking of Virgin Hotels Group Ltd

15 Ultimate parent company and parent undertaking of larger group of which the company is a member

As at 31 March 2007, the Company was a subsidiary undertaking of Virgin Group Holdings Limited which is the ultimate parent company incorporated in the British Virgin Islands. As at that date, the principal shareholders of Virgin Group Holdings Limited were certain trusts, none of which, individually had a controlling interest in Virgin Group Holdings Limited. The principal beneficiaries of those trusts were Sir Richard Branson and/or members of his immediate family.

The largest and smallest group in which the results of the Company are consolidated is that headed by the Virgin Hotels Group Limited which is registered in the England & Wales. The consolidated financial statements of the Virgin Hotels Group Limited are available to the public and may be obtained from 120 Campden Hill Road, London, W8 7AR.