

The Virgin Clothing Company Limited

**Directors' report and financial
statements**

Registered number 3196828

Year ended 31 March 2002



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2002.

Principal activities

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

Business review

The company continued to trade under the international licensing arrangement with Unique Commerce and Fast Fashion.

Going concern

The company enjoys the continued support of its intermediate controlling party, Victory Corporation plc, and therefore the directors have prepared the accounts under the going concern basis.

Proposed dividend

The directors are unable to recommend payment of a final dividend (2001: £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:

Sir Richard Branson (Chairman)

John Jackson

Clive Bruce

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.

Other than Sir Richard Branson, 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. The interest of Sir Richard Branson is disclosed within the accounts of those group companies.

Political and charitable contributions

The company made no political or charitable contributions during the year (2001: £nil).

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



John Jackson
Director

2 September 2002

Salisbury House
City Fields Business Park
Tangmere
Chichester
West Sussex
PO20 2FP

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the 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

8 Salisbury Square
London
EC4Y 8BB

Report of the independent auditor to the members of The Virgin Clothing Company Limited

We have audited the financial statements on pages 4 to 12.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

15 SEPTEMBER 2002

Profit and loss account

for the year ended 31 March 2002

	Note	2002 £000	2001 £000
Turnover	1	3,187	3,733
Cost of sales		(380)	(806)
Gross profit		2,807	2,927
Administrative expenses		(330)	(1,130)
Profit on ordinary activities before taxation	2-4	2,477	1,797
Tax on profit on ordinary activities	5	-	39
Profit on ordinary activities after taxation and retained profit for the period	11	2,477	1,836

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

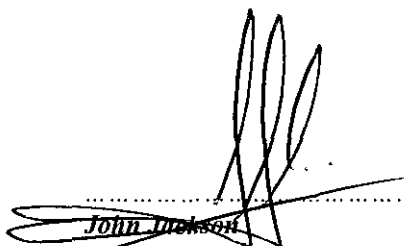
The retained profit for the period reported above all relates to continuing operations.

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
 as at 31 March 2002

	<i>Note</i>	2002		2001	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	6		12		17
Current assets					
Debtors	8	944		3,725	
Cash		1,511		-	
		<u>2,455</u>		<u>3,725</u>	
Creditors: amounts falling due within one year	9	<u>(428)</u>		<u>(4,180)</u>	
Net current assets/(liabilities)			<u>2,027</u>		<u>(455)</u>
Net assets/(liabilities)			<u>2,039</u>		<u>(438)</u>
Capital and reserves					
Called up share capital	10		15		15
Share premium account	11		19,993		19,993
Profit and loss account	11		(17,969)		(20,446)
Equity shareholders' funds/(deficit)	12		<u>2,039</u>		<u>(438)</u>

These financial statements were approved by the board of directors on 2 September 2002 and were signed on its behalf by:


 John Jackson
 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. The company has adopted FRS 18 'Accounting policies' and FRS 19 'Deferred tax' 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.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 (Revised 1996) 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.

Going concern

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 the audit opinion in the 31 March 2002 financial statements.

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.

Fixed assets and depreciation

Depreciation is provided to write off the costs less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer equipment and software	- 4 years
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Foreign currency

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 rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

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. Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

Leases

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

Notes (continued)

1 Accounting policies (continued)

Pension costs

Pension costs charged to the profit and loss account represent the amount of contributions payable to personal pension schemes in respect of the period.

2 Profit on ordinary activities before taxation

	2002 £000	2001 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Depreciation and other amounts written off tangible fixed assets:		
Owned	5	40
Hire of other assets – operating leases	368	368
Exchange losses	2	29

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

	2002 £000	2001 £000
Emoluments	-	83
Pension scheme contributions	-	3
Compensation for loss of office	-	78
	-	164

The emoluments of the highest paid director were £nil (2001: £40,833), and company pension scheme contributions of £nil (2001: £1,294) were made to a personal pension scheme on his behalf.

No directors' remuneration was paid by this company in the year ended 31 March 2002 as all directors are paid by the parent company, Victory Corporation plc. Details of directors' remuneration can be found in the financial statements of Victory Corporation plc.

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, as follows:

	2002 Number	2001 Number
Administration	4	16

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	108	367
Social security costs	12	29
Other pension costs (see note 13)	1	9
	<u>121</u>	<u>405</u>

5 Taxation

	2002 £000	2001 £000
UK corporation tax credit at 30%	-	(39)

There is no corporation tax for the current year due to losses incurred.

Current tax reconciliation

Profit on ordinary activities before taxation	2,477	1,797
Current tax at 30%	<u>743</u>	<u>539</u>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	4	18
Utilisation of tax losses brought forward	(747)	(567)
Capital allowances for a period in excess of depreciation	-	10
Adjustments to tax charge in respect of previous periods	-	(39)
Total current tax credit (see above)	<u>-</u>	<u>(39)</u>

As at 31 March 2002 the company had tax losses to carry forward of approximately £16.8m and other short term timing differences of £1.3m against which no deferred tax asset has been recognised. The asset has not been recognised due to uncertainty over the eventual timing of crystallisation.

Notes (continued)

6 Tangible fixed assets

	Computer Equipment £000
<i>Cost</i>	
At 1 April 2001 and 31 March 2002	19
<i>Depreciation</i>	
At beginning of year	2
Charge for the year	5
As at 31 March 2002	7
<i>Net book value</i>	
At 31 March 2002	12
At 31 March 2001	17

7 Fixed asset investment

The company's investment in subsidiaries is represented by:

	Country of registration or incorporation	Principal activity	% Equity holding	Country of operation
<i>Subsidiary undertakings</i>				
Classboss Limited	England and Wales	Dormant	100%	UK
Twill Limited	Channel Islands	Dormant	100%	Channel Islands

On 27 October 1997 the company subscribed for 2 ordinary shares of £1 each in Classboss Limited for an aggregate sum of £2.

Notes (continued)

8 Debtors

	2002 £000	2001 £000
Trade debtors	198	174
Amounts owed by group undertakings	570	736
Other debtors	28	2,780
Prepayments and accrued income	148	35
	<hr/> 944	<hr/> 3,725

9 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Bank overdraft (secured)	-	104
Trade creditors	252	473
Amounts owed to group undertakings	54	330
Other creditors including taxation and social security	-	153
Accruals and deferred income	122	3,120
	<hr/> 428	<hr/> 4,180

Included in the above is mainstream corporation tax of £nil (2001: £141,604).

The bank overdraft is secured by an omnibus guarantee and unlimited debenture of the Victory Corporation plc group. At 31 March 2002 the group's overdraft balances amounted to £8,590,000 (2001: £4,255,000).

10 Called up share capital

	2002 £000	2001 £000
<i>Authorised</i>		
1,587,936 ordinary shares at 1p each	16	16
<i>Allotted, called up and fully paid</i>		
1,551,735 ordinary shares of 1p each	15	15

11 Share premium and reserves

	Share premium account £000	Profit and loss account £000
At 1 April 2001	19,993	(20,446)
Retained profit for year	-	2,477
	<hr/> 19,993	<hr/> (17,969)

Notes (continued)

12 Reconciliation of movements in shareholders' deficit for the year ended 31 March 2001

	2002 £000	2001 £000
Profit for the financial year	2,477	1,836
Opening shareholders' deficit	(438)	(2,274)
	<hr/>	<hr/>
Closing shareholders' funds/(deficit)	2,039	(438)
	<hr/>	<hr/>

13 Pension scheme

The pension cost charge for the year represents contributions payable by the company to personal pension schemes and amounted to £1,000 (2001: £9,000). There were no outstanding or prepaid contributions at the end of the year (2001: £nil).

14 Commitments

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

	Land and buildings £000	Other £000	2002 Total £000	Land and buildings £000	Other £000	2001 Total £000
Operating leases which expire:						
Within one year	-	-	-	-	-	-
In the second to fifth years inclusive	131	5	136	131	5	136
Over five years	232	-	232	232	-	232
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	363	5	368	363	5	368
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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 and The Virgin Cosmetics Company Limited, The Virgin Cosmetics (Marketing) Company Limited, The Virgin Cosmetics (Purchasing) Company Limited, Virgin Clothing and Cosmetics Company Limited, Victory Retail Limited, Civic Enterprises Limited and Foothold Limited.

Notes (continued)

15 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.

The directors consider that the ultimate controlling party is Virgin Group Investments Limited.

Name of related party	Type of transaction	Value £000	Balance at 31 March 2002 £000
Virgin Management Limited	Provision of tax, trademarks and car leasing services	(44)	(2)
Virgin Enterprise	License provision	(69)	(42)
Virgin Projects Limited	Provision of car leasing services	(9)	(9)

16 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 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. No other group accounts include the results of the company.

The company's ultimate parent undertaking is Virgin Group Investments Limited, a company incorporated in the British Virgin Islands. The principal shareholders of Virgin Group Investments Limited are certain trusts, none of which, individually has a controlling interest in Virgin Group Investments Limited. The principal beneficiaries of those trusts are Sir Richard Branson and/or members of his immediate family.