William Hollins & Company Limited

Report and Financial Statements

1 April 2006

Registered Number: 00151652

Registered No. 00151652

DIRECTORS
J G Harris
S M Watson

SECRETARY
T J Ansell

AUDITORS
Ernst & Young LLP
No. 1 Colmore Square
Birmingham
B4 6HQ

REGISTERED OFFICE
57 Broadwick Street
London
W1F 9QS

BANKERS
National Westminster Bank plc
11 Spring Gardens
Manchester
M60 2DB

The directors submit their report and accounts for the year ended 1 April 2006.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Company's principal activities are the design and retailing of high quality women's fashion, and licensing the manufacture and sale of apparel and homewares under the Viyella brand.

RESULTS AND DIVIDENDS

The main performance measures used by the company are sales, profits and cash generation.

Sales were £26,520k, 10.5% down on the previous year of £29,662k. This reflected the closure of loss making clearance outlets and increases in like-for-like High Street sales of 13% for freestanding stores and 6% for concession stores. Significantly, the increased sales were achieved at higher gross margins of 65% (2005 – 61.8%). This was an excellent result and demonstrated the continued revival of the brand full price sales with a gross profit of £17,254k (2005 - £18,349k). The closure of the clearance outlets and other branch overhead savings produced a reduction of over £2m in distribution and branch costs, this, coupled with administrative overhead savings of nearly £300k reduced total overheads to £18,128k (2005 - £20,425k). Licensing income increased to £318k (2005 - £233k) following the launch of the Viyella homewares range. These factors produce a reduced operating loss of £420k (2005 - £1,742k).

Interest charges remained virtually unchanged at £259k (2005 - £250k) giving a loss for the year of £679k (2005 - £1,992k). The directors do not propose the payment of a dividend.

The company secured new finance facilities during the year and net borrowings (being bank overdrafts, finance leases and hire purchase agreements and invoice discounting less cash at bank and in hand) increased to £1.6m at 1 April 2006 (2005 - £0.7m) allowing a reduction in monies owed to trade creditors.

Whilst the High Street retail market remains difficult, the restructuring programme undertaken has put the company in a stronger position to compete in the current climate and to take advantage of any upturn in the market.

FINANCIAL RISK MANAGEMENT POLICY

The company's principal financial instruments comprise cash, cash equivalents and invoice discounting/stock loans. The main purpose of these financial instruments is to raise finance for the company's operations. The company has various other financial assets and liabilities, including trade debtors and creditors and amounts owed to and by Group undertakings that arise directly from its operations.

The company enters into forward foreign currency contracts, whose purpose is to manage the foreign currency risks arising from the company's operations.

It is, and has been throughout the period under review, the company's policy that no trading in financial instruments of a speculative nature shall be undertaken.

The principal risks associated with the company's financial assets and liabilities are set out below.

• Interest rate risk

The company principal borrowings (invoice discounting/stock loans) attract interest at variable interest rates. Therefore financial liabilities, interest charges and cash flows can be affected by movements in interest rates. The company's financial assets are not exposed to interest rate risk.

• Price risk

There is no significant exposure to changes in the carrying value of financial instruments, assets and liabilities, except as a result of foreign currency exchange rate fluctuations, as described below.

FINANCIAL RISK MANAGEMENT POLICY (CONTINUED)

• Credit risk
The company has no material exposure to external credit risk.

• Liquidity risk
The company aims to mitigate liquidity risk by managing cash generated by its operations. The principal form of financing is through invoice discounting/stock loan facilities which are repayable on demand. The company is party to a cross-guarantee of similar financing facilities for other group companies.

• Foreign currency risk
The company has exposure to a number of foreign currencies through its purchases, sales of products and receipt of royalty income. Exposure is principally to US and Hong Kong dollars, Euros and Japanese yen. The company takes out forward foreign currency contracts to mitigate this risk, consistent with the Group's policy of hedging against known and highly probable exposures for a 6-12 month forward period.

DIRECTORS AND THEIR INTERESTS
The directors who served during the year were as follows:

J G Harris
S M Watson

The directors have no beneficial interests in the shares of the company. J G Harris and S M Watson are directors of the ultimate parent company, Waterlinks Investments Limited and their shareholdings are disclosed in that company's accounts.

EMPLOYMENT POLICIES
The company is committed to best practice employment policies and practice in all its activities. The company is continually reviewing and amending policy and practice to ensure compliance with legal requirements.

The company aims to communicate effectively with all employees to ensure that the business vision is clearly understood and implemented across the business.

DISABLED PERSONS
It is the company's policy to offer equal opportunity to disabled persons applying for vacancies and provide them with the same opportunities for employment, training, career development and promotion that are available to all employees within the limitation of their aptitude and abilities.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion.

PAYMENT OF SUPPLIERS
It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 1 April 2006, the company had an average of 87 days purchases outstanding in trade creditors (2005: 91 days).

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS
Having made enquiries of fellow directors and of the company's auditors, each of the directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and

- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS
A resolution to re-appoint Ernst & Young LLP as the company's auditors will be put to the forthcoming Annual General Meeting.

On behalf of the Board

J. G. Harris

J G Harris
Director

15 December 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the annual report and financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare accounts 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 of the company for that year. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WILLIAM HOLLINS & COMPANY LIMITED

We have audited the company's financial statements for the year ended 1 April 2006 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 21. These financial statements have been prepared on the basis of 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 auditors' 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 are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

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, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements.

We also 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.

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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 1 April 2006 and of the loss of the company 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.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

15 December 2006

PROFIT AND LOSS ACCOUNT
for the year ended 1 April 2006

	Notes	2006 £000	2005 £000
TURNOVER	2	26,520	29,662
Cost of sales		9,266	11,313
Gross Profit		17,254	18,349
Distribution costs		(13,705)	(15,709)
Administration expenses		(4,423)	(4,716)
Other operating income		454	334
OPERATING LOSS	3	(420)	(1,742)
Interest payable and similar charges	6	(259)	(250)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(679)	(1,992)
Tax on loss on ordinary activities	7	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED FOR THE YEAR	16	(679)	(1,992)

All amounts relate to continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains and losses other than the loss attributable to shareholders of the company of £679,000 for the year ended 1 April 2006 and the loss of £1,992,000 for the year ended 26 March 2005.

BALANCE SHEET
at 1 April 2006

	Notes	2006 £000	2005 £000
FIXED ASSETS			
Tangible assets	8	1,320	1,343
CURRENT ASSETS			
Stocks	9	3,215	3,978
Debtors	10	2,425	2,389
Cash at bank and in hand		22	96
		5,662	6,463
CREDITORS: amounts falling due within one year	11	7,639	7,550
NET CURRENT LIABILITIES		(1,977)	(1,087)
TOTAL ASSETS LESS CURRENT LIABILITIES		(657)	256
CREDITORS: amounts falling due after more than one year	12	-	83
PROVISIONS FOR LIABILITIES	14	-	151
NET ASSETS		(657)	22
CAPITAL AND RESERVES			
Called up share capital	15	7,500	7,500
Profit and loss account	16	(8,157)	(7,478)
EQUITY SHAREHOLDER'S FUNDS	16	(657)	22

J G Harris
Director

15 December 2006

NOTES TO THE FINANCIAL STATEMENTS
at 1 April 2006

1. ACCOUNTING POLICIES

Fundamental accounting concept
The financial statements have been prepared on a going concern basis as the parent company has indicated that it will continue to support the company and will not recall the amounts advanced by the company until all other creditors have been met.

Basis of preparation
The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Cash flow statement
In accordance with Financial Reporting Standard 1 (Revised 1996), 'Cash Flow Statements', the company is exempt from the requirement to prepare a cash flow statement on the grounds that at least 90% of the voting rights in the company are controlled within the group headed by Waterlinks Investments Limited and the company is included in its consolidated financial statements.

Income recognition
Income relating to credit cards and licensing is accounted for on a receipts basis.

Depreciation
Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Short leasehold property	over period of lease
Fixtures and fittings	over 5 to 18 years
Electronic office equipment	over 4 years
Motor vehicles	over 5 years

Stocks
Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale:	purchase cost on a first in, first out basis
Work in progress and finished goods:	cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred taxation
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 have occurred at that date that will result in an obligation to pay more, or a right to receive more, tax. The exception to this is that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

1. ACCOUNTING POLICIES (CONTINUED)

Leases

Assets acquired under finance leases, which are leases where substantially all the risks and rewards of ownership have passed to the company, and hire purchase contracts are capitalised in the balance sheet and depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

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.

2. TURNOVER

Turnover, which is stated net of value added tax, represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities, stated net of value added tax.

All turnover was derived from the company's principal continuing activity.

	2006	*2005*
	£000	*£000*
United Kingdom	26,217	29,372
Europe	303	290
	26,520	29,662

3. OPERATING LOSS

	2006	*2005*
	£000	*£000*
This is stated after charging:		
Depreciation of owned assets	437	654
Depreciation of assets held under finance leases and hire purchase agreements	21	22
Auditors' remuneration	19	14
Operating lease rentals - land and buildings	2,647	2,596
Operating lease rentals - plant and machinery	276	264

4. DIRECTORS' EMOLUMENTS

The Directors received no emoluments for their services to the company in the current or prior period.

5. STAFF COSTS

	2006 £000	2005 £000
Wages and salaries	6,343	7,268
Social Security costs	434	446
Other pension costs	68	79
	6,845	7,793

The monthly average number of employees during the period was as follows:

	2006 No.	2005 No.
Management, selling and administration	532	604

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £000	2005 £000
Bank interest	-	2
Invoice discounting	75	103
Interest on finance leases and hire purchase agreements	33	72
Other interest	151	73
	259	250

7. TAX ON LOSS ON ORDINARY ACTIVITIES

(a) Taxation is made up as follows:

	2006 £000	2005 £000
UK corporation tax	-	-
Overseas taxation	-	-
Total current tax	-	-
Deferred taxation	-	-
	-	-

7. TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

(b) Factors affecting tax charge

The tax assessed on the loss on ordinary activities for the year ended 1 April 2006 is higher (2005: higher) than the standard rate of corporation tax in the UK of 30%. The differences are reconciled below:

	2006	*2005*
	£000	*£000*
Loss on ordinary activities before tax	(679)	(1,992)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(204)	(598)
Overseas taxes not relieved in the UK	-	7
Expenses not deductible for tax purposes	16	127
Depreciation in excess of capital allowances	(94)	(146)
Other timing differences	29	-
Surrender of tax losses for no payment	112	610
Tax losses carried forward	141	-
Total current tax (note 8(a))	-	-

(c) Factors that may affect future tax charges

The company has unutilised tax losses of £7,112,000 (2005: £6,243,000). A deferred tax asset of £2,134,000 (2005: £1,873,000) has not been recognised in respect of these losses as it is uncertain that there will be sufficient relevant taxable profits in the foreseeable future.

(d) Deferred tax

The company has an unprovided deferred tax asset as follows:

	2006	*2005*
	£000	*£000*
Depreciation in excess of capital allowances	(415)	(716)
Other timing differences	(44)	(15)
Losses	(2,134)	(1,873)
	(2,593)	(2,604)

8. TANGIBLE FIXED ASSETS

	Leasehold Property £000	*Fixtures & Fittings £000*	*Total £000*
Cost:			
At 27 March 2005	550	8,058	8,608
Additions	5	436	441
Disposals	(3)	(240)	(243)
At 1 April 2006	552	8,254	8,806
Depreciation:			
At 27 March 2005	273	6,992	7,265
Charge for the period	40	418	458
Disposals	(3)	(234)	(237)
At 1April 2006	310	7,176	7,486
Net book value:			
At 1 April 2006	242	1,078	1,320
At 26 March 2005	277	1,066	1,343

Included in Fixtures and Fittings are assets held under finance leases and hire purchase contracts with a net book value of £9,000 (2005: £31,000).

9. STOCKS

	2006 £000	*2005 £000*
Finished goods and goods for resale	3,215	3,978
	3,215	3,978

The stock value is not materially different from replacement cost.

NOTES TO THE FINANCIAL STATEMENTS
at 1 April 2006

10. DEBTORS

	2006 £000	2005 £000
Trade debtors	517	485
Amounts owed by group undertakings	154	305
Other debtors	158	13
Prepayments and accrued income	1,596	1,586
	2,425	2,389

11. CREDITORS: amounts falling due within one year

	2006 £000	2005 £000
Bank loan (note 13)	19	71
Bank overdraft	104	-
Invoice discounting	722	419
Stock loan	767	-
Obligations under finance leases and hire purchase contracts (note 14)	66	187
Trade creditors	3,782	4,468
Other taxes and social security costs	777	975
Other creditors	22	11
Amounts owed to group undertakings	487	247
Accruals	893	1,172
	7,639	7,550

The stock loan and invoice discounting facilities are secured by fixed and floating charges over the company's assets.

12. CREDITORS: amounts falling due after more than one year

	2006 £000	2005 £000
Bank loans	-	19
Obligations under finance leases and hire purchases contracts (note 14)	-	64
	-	83

The bank loans are secured by a charge over fixtures and fittings.

	2006 £000	2005 £000
Repayable within one year	19	71
Repayable between one and two years	-	19
	19	90

13. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	2006 *£000*	*2005* *£000*
Future minimum payments under finance leases are as follows:		
Within one year	66	187
In more than one year, but not more than five years	-	64
	66	251

14. PROVISIONS FOR LIABILITIES

	Redundancy and restructuring £000
At 27 March 2005	151
Charged to profit and loss account	(151)
At 1 April 2006	-

15. SHARE CAPITAL

	2006 £000	*2005* £000
Authorised		
773,750,000 Ordinary shares of 1p each	7,738	7,738
Allotted, called up and fully paid		
750,000,000 Ordinary shares of 1p each	7,500	7,500

16. RECONCILIATION OF SHAREHOLDERS' FUNDS

	Share capital *£000*	*Profit and loss account* *£000*	*Total* *£000*
At 1 April 2004	7,500	(5,486)	2,014
Retained loss for the period	-	(1,992)	(1,992)
At 26 March 2005	7,500	(7,478)	22
Retained loss for the year	-	(679)	(679)
At 1 April 2006	7,500	(8,157)	(657)

17. FINANCIAL COMMITMENTS

At 1 April 2006 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings			*Other*
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Within one year	50	241	3	3
In two to five years	1,050	308	25	148
Over five years	1,575	2,009	-	-
	2,675	2,558	28	151

18. PENSION COMMITMENTS

The company operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The unpaid contributions outstanding at the year end, included in 'other creditors' are £21,581 (2005: £10,779).

19. RELATED PARTIES

As permitted by FRS 8 'Related Party Disclosures' the financial statements do not disclose transactions with the parent company and fellow subsidiaries where 90% of the voting rights are controlled within the group.

During the year, the company entered into transactions with Harris Watson Holdings plc, the former ultimate parent undertaking. The company incurred management charges of £144,000 and equipment rental costs of £242,407. In addition, the company charged Harris Watson Holdings plc £62,287 in respect of equipment hire during the year. The balance outstanding due to Harris Watson Holdings plc was £509,236 at 1 April 2006.

20. CONTINGENT LIABILITIES

The company is party to a cross-guarantee securing stock loan and invoice discounting facilities for certain members of the Waterlinks Investments Limited group.

21. ULTIMATE PARENT UNDERTAKING

In the directors' opinion, the company's ultimate parent undertaking and controlling party at 1 April 2006 is Waterlinks Investments Limited. Copies of its group financial statements which include the company are available from the company's registered office, 45 Waterlinks House, Richard Street, Birmingham, West Midlands, B7 4AA.