William Hollins & Company Limited

Report and Financial Statements

31 March 2007

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
Barclays Bank PLC
15 Colmore Row
Birmingham
B3 2NW

The directors submit their report and accounts for the year ended 31 March 2007

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 £26,073k, for the 52 weeks to 31st March compared to £26,520k for 53 weeks last year This reflected difficult trading conditions particularly in the autumn season. Like for like freestanding stores achieved a sales increase of 2 1% while concession store sales reduced by 4 6%

A further improvement in gross margin to 66 3% (2005 – 65 0%) helped to offset inflation in distribution costs which included wage rates, linked to the increase in the minimum wage, and significant increases in power costs Savings in Administration costs of £456k were offset by a reduction in licensing income of £80k, largely caused by adverse currency movements These factors produced a reduced operating loss of £90k (2006 - £420k)

Interest charges increased to £426k (2006 - £259k) giving a loss for the year of £528k (2006 - £679k) The directors do not propose the payment of a dividend

Net borrowings (being bank overdrafts, stock loan and invoice discounting less cash at bank) increased to £2 3m at 31st March 2007 (2006- £1 6m) allowing a reduction in monies owed to trade creditors and earlier intake of stock to take greater advantage of sales opportunities in Spring 2007

Whilst the High Street retail market remains challenging, the company continues to invest in new freestanding shops in quality market towns as a platform for future growth

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

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 resolutıon to re-appoınt Ernst & Young LLP as the company's audıtors wıll be put to the forthcomıng Annual General Meetıng

Approved by the Board of Dırectors and sıgned by order of the Board

J G Harrıs
Dırector

3 August 2007

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 financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)

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 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 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 maintaining proper accounting records that 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 are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

We have audited the company's financial statements for the year ended 31 March 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 18 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 Director's 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 Director's 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 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 31 March 2007 and of the 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

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham 3 August 2007

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2007

	Notes	2007 £000	2006 £000
TURNOVER	2	26,073	26,520
Cost of sales		8,775	9,266
Gross Profit		17,298	17,254
Distribution costs		(14,121)	(13,705)
Administration expenses		(3,967)	(4,423)
Other operating income		700	454
OPERATING LOSS	3	(90)	(420)
Interest payable and similar charges	6	(426)	(259)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(516)	(679)
Tax on loss on ordinary activities	7	(12)	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED FOR THE YEAR	13	(528)	(679)

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 £528,000 for the year ended 31 March 2007 and the loss of £679,000 for the year ended 1 April 2006

BALANCE SHEET
at 31 March 2007

	Notes	2007 £000	2006 £000
FIXED ASSETS			
Tangible assets	8	977	1,320
CURRENT ASSETS			
Stocks	9	3,840	3,215
Debtors	10	2,133	2,425
Cash at bank and in hand		-	22
		5,973	5,662
CREDITORS amounts falling due within one year	11	8,135	7,639
NET CURRENT LIABILITIES		(2,162)	(1,977)
TOTAL ASSETS LESS CURRENT LIABILITIES		(1,185)	(657)
CAPITAL AND RESERVES			
Called up share capital	12	7,500	7,500
Profit and loss account	13	(8,685)	(8,157)
EQUITY SHAREHOLDER'S FUNDS	13	(1,185)	(657)

The financial statements were approved by the Board and issued to the shareholders on 3 August 2007

J G Harris
Director

NOTES TO THE FINANCIAL STATEMENTS
at 31 March 2007

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 pay less or to receive more, tax, with the following exception

- 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, based on tax rates and laws enacted or substantively enacted at the balance sheet date

1. ACCOUNTING POLICIES (CONTINUED)

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

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

	2007	*2006*
	£000	*£000*
United Kingdom	25,705	26,217
Europe	368	303
	26,073	26,520

3. OPERATING LOSS

	2007	*2006*
	£000	*£000*
This is stated after charging		
Depreciation of owned assets	406	437
Depreciation of assets held under finance leases and hire purchase agreements	9	21
Auditors' remuneration	14	19
Operating lease rentals - land and buildings	2,684	2,647
Operating lease rentals - plant and machinery	195	276

4. DIRECTORS' EMOLUMENTS

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

5 STAFF COSTS

	2007 £000	2006 £000
Wages and salaries	6,583	6,343
Social Security costs	485	434
Other pension costs	70	68
	7,138	6,845

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

	2007 No	2006 No
Management, selling and administration	440	532

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £000	2006 £000
Bank interest	4	-
Invoice discounting	123	75
Interest on finance leases and hire purchase agreements	2	33
Other interest	297	151
	426	259

7. TAX ON LOSS ON ORDINARY ACTIVITIES

(a) Taxation is made up as follows

	2007 £000	2006 £000
UK corporation tax	12	-
Double taxation relief	(12)	-
	-	-
Overseas withholding tax	12	-
Total current tax	12	-
Deferred taxation	-	-
	12	-

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 31 March 2007 is higher (2006 higher) than the standard rate of corporation tax in the UK of 30% The differences are reconciled below

	2007	*2006*
	£000	*£000*
Loss on ordinary activities before tax	(516)	(679)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	(155)	(204)
Expenses not deductible for tax purposes	147	16
Depreciation in excess of capital allowances	21	(94)
Other timing differences	(1)	29
Surrender of tax losses for no payment	-	112
Tax losses carried forward	-	141
Total current tax (note 8(a))	12	-

(c) Factors that may affect future tax charges

The company has unutilised tax losses of £6,429,000 (2006 £7,112,000) A deferred tax asset of £1,800,000 (2006 £2,134,000) 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

	2007	*2006*
	£000	*£000*
Depreciation in excess of capital allowances	(595)	(415)
Other timing differences	(47)	(44)
Losses	(1,800)	(2,134)
	(2,442)	(2,593)

Announcements were made after the Balance Sheet date to changes in tax laws and rates that will have an effect on the deferred tax asset of the company The main change that will affect the company is the reduction in the rate of UK Corporation tax from 30% to 28% This change has resulted in a reduction of the potential deferred tax asset of £174,000

8. TANGIBLE FIXED ASSETS

	Leasehold Property £000	*Fixtures & Fittings £000*	*Total £000*
Cost			
At 2 April 2006	552	8,254	8,806
Additions	-	75	75
Disposals	-	(76)	(76)
At 31 March 2007	552	8,253	8,805
Depreciation			
At 2 April 2006	310	7,176	7,486
Charge for the period	38	377	415
Disposals	-	(73)	(73)
At 31 March 2007	348	7,480	7,828
Net book value			
At 31 March 2007	204	773	977
At 1 April 2006	242	1,078	1,320

Included in Fixtures and Fittings are assets held under finance leases and hire purchase contracts with a net book value of £nil (2006 £9,000) Depreciation of £9,000 (2006 £21,000) was charged on these assets during the year

9. STOCKS

	2007 £000	*2006 £000*
Finished goods and goods for resale	3,840	3,215
	3,840	3,215

The stock value is not materially different from replacement cost

10. DEBTORS

	2007	*2006*
	£000	*£000*
Trade debtors	748	517
Amounts owed by group undertakings	194	154
Other debtors	106	158
Prepayments and accrued income	1,085	1,596
	2,133	2,425

11. CREDITORS: amounts falling due within one year

	2007	*2006*
	£000	*£000*
Bank loan	-	19
Bank overdraft	525	104
Invoice discounting	629	722
Stock loan	1,177	767
Obligations under finance leases and hire purchase contracts	-	66
Trade creditors	3,051	3,273
Other taxes and social security costs	709	777
Other creditors	-	22
Amounts owed to group undertakings	603	487
Amounts due to related undertakings (note 16)	792	509
Accruals	649	893
	8,135	7,639

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

12. SHARE CAPITAL

	2007	*2006*
	£000	£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

13. RECONCILIATION OF SHAREHOLDERS' FUNDS

	Share capital *£000*	*Profit and loss account* *£000*	*Total* *£000*
At 26 March 2005	7,500	(7,478)	22
Retained loss for the period	-	(679)	(679)
At 1 April 2006	7,500	(8,157)	(657)
Retained loss for the year	-	(528)	(528)
At 31 March 2007	7,500	(8,685)	(1,185)

14. FINANCIAL COMMITMENTS

a) Capital commitments

Capital commitments contracted for but not provided in the financial statements amounted to £347,000 at 31 March 2007 (2006 £nil)

b) Operating lease commitments

At 31 March 2007 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings		*Other*	
	2007	*2006*	*2007*	*2006*
	£000	*£000*	*£000*	*£000*
Within one year	169	50	5	3
In two to five years	1,176	1,050	215	25
Over five years	1,573	1,575	0	-
	2,918	2,675	220	28

15. 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 £12,549 (2006 £21,581)

16. 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 £180,000 (2006 £144,000) and equipment rental costs of £266,025 (2006 £242,407) In addition, the company charged Harris Watson Holdings plc £25,953 (2006 £62,287) in respect of equipment hire during the year The balance outstanding due to Harris Watson Holdings plc was £792,407 at 31 March 2007 (2006 £509,236)

17. 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

18. ULTIMATE PARENT UNDERTAKING

The only Group in which the results of the company are consolidated is that headed by Waterlinks Investments Limited

In the directors' opinion, the company's ultimate parent undertaking and controlling party at 31 March 2007 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