William Hollins & Company Limited

Report and Financial Statements

31 March 2004

Registered Number: 00151652

ERNST & YOUNG

William Hollins & Company Limited

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

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The directors submit their report and accounts for the 15 months ended 31 March 2004.

RESULTS AND DIVIDENDS

The loss for the period after taxation amounted to £7,847,000 (year to 31 December 2002 – loss £3,073,000). Dividends totalling £10,079,000 were paid during the period prior to the acquisition of the company by Harris Watson Investments Limited. The directors do not propose the payment of a final dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Company's principle 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.

Sales for the fifteen months were £43,460,000 (2002: £43,559,000, 12 months). An operating loss of £7,736,000 was incurred in the period (2002: £3,267,000). Following its acquisition in March 2003 by Harris Watson Investments Limited, the company embarked on a radical programme of restructuring. This involved the relocation of its warehousing, accounting and information technology infrastructure; the rationalisation of the store portfolio; and the strengthening of its product and management team. The restructuring has significantly reduced administrative costs and created a solid platform for future growth.

Current trading results confirm that the product offer has been successfully repositioned to meet the expectations of Viyella's traditional customer as well as appealing to a wide cross-section of customers in the brand's target market.

DIRECTORS AND THEIR INTERESTS

The directors who served during the period were as follows:

J G Harris	(appointed 12 March 2003)
S M Watson	(appointed 12 March 2003)
R C Thompson	(appointed 10 March 2003, resigned 12 March 2003)
A W Oliver	(appointed 23 January 2003, resigned 12 March 2003)
P A Burnett	(resigned 23 January 2003)
C W Healy	(resigned 23 January 2003)
D L F Holt	(resigned 26 February 2003)
J D Lea	(resigned 23 January 2003)
D W Younger	(resigned 15 January 2003)

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, Harris Watson Holdings plc 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.

AUDITORS

Deloitte & Touche LLP resigned as auditors on 19 March 2004. Ernst & Young LLP were appointed as auditors by the Board in order to fill the casual vacancy caused by their resignation.

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

By order of the Board

J G Harris
Director

Dated 27/9/05

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors confirm that these accounts comply with these requirements.

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.

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

We have audited the company's financial statements for the 15 months ended 31 March 2004, which comprise the Profit and Loss Account, 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts 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 accounts, 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.

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 United Kingdom 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 accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 March 2004 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst + Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

Date 17 October 2005

PROFIT AND LOSS ACCOUNT
for the 15 months ended 31 March 2004

	Notes	*15 months ended 31 March 2004 £000*	*Year ended 31 December 2002 £000*
TURNOVER	2	43,460	43,559
Cost of sales		19,876	18,175
Gross Profit		23,584	25,384
Distribution costs		(25,794)	(23,454)
Administration expenses		(6,261)	(5,824)
Other operating income		735	627
OPERATING LOSS	3	(7,736)	(3,267)
Interest receivable and similar income	6	12	231
Interest payable and similar charges	7	(121)	(24)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(7,845)	(3,060)
Tax on loss on ordinary activities	8	(2)	(13)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(7,847)	(3,073)
Equity ordinary dividends paid		(10,079)	-
RETAINED LOSS TRANSFERRED TO RESERVES	17	(17,926)	(3,073)

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 £7,847,000 for the period ended 31 March 2004 and the loss of £3,073,000 for the year ended 31 December 2002.

BALANCE SHEET
as at 31 March 2004

	Notes	*31 March 2004 £000*	*31 December 2002 £000*
FIXED ASSETS			
Tangible assets	9	1,416	1,650
CURRENT ASSETS			
Stocks	10	5,643	5,685
Debtors	11	2,429	19,086
Cash at bank and in hand		112	21
		8,184	24,792
CREDITORS: amounts falling due within one year	12	6,944	6,502
NET CURRENT ASSETS		1,240	18,290
TOTAL ASSETS LESS CURRENT LIABILITIES		2,656	19,940
CREDITORS: amounts falling due after more than one year	13	341	-
PROVISIONS FOR LIABILITIES AND CHARGES	15	301	-
NET ASSETS		2,014	19,940
CAPITAL AND RESERVES			
Called up share capital	16	7,500	7,500
Profit and loss account	17	(5,486)	12,440
EQUITY SHAREHOLDERS' FUNDS	17	2,014	19,940

J G Harris
Director

Dated 23/9/05

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), 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 Harris Watson Holdings plc and the company is included in 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.

BALANCE SHEET
as at 31 March 2004

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.

	15 months ended 31 March 2004 £000	*Year ended 31 December 2002 £000*
United Kingdom	43,152	43,559
Europe	308	-
	43,460	43,559

3. OPERATING LOSS

	15 months ended 31 March 2004 £000	*Year ended 31 December 2002 £000*
This is stated after charging:		
Depreciation of owned assets	848	999
Depreciation of assets held under finance leases and hire purchase agreements	16	-
Auditors' remuneration	27	21
Operating lease rentals - land and buildings	2,907	2,044
Operating lease rentals - plant and machinery	34	27

BALANCE SHEET
as at 31 March 2004

4. DIRECTORS' EMOLUMENTS

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

5. STAFF COSTS

	15 months ended 31 March 2004 £000	*Year ended 31 December 2002 £000*
Wages and salaries	10,154	7,123
Social Security costs	618	370
Other pension costs	73	202
	10,845	7,695

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

	15 months ended 31 March 2004 No.	*Year ended 31 December 2002* No.
Management, selling and administration	843	871

INTEREST RECEIVABLE AND SIMILAR INCOME

	15 months ended 31 March 2004 £000	*Year ended 31 December 2002 £000*
Interest receivable from group companies	-	231
Credit card interest	281	205
Other interest	12	-
	293	436
Less: Credit card interest transferred to other operating income	(281)	(205)
	12	231

7. INTEREST PAYABLE AND SIMILAR CHARGES

	15 months ended 31 March 2004 £000	*Year ended 31 December 2002 £000*
Bank interest	-	24
Invoice discounting	46	-
Interest on finance leases and hire purchase agreements	75	-
	121	24

8. TAX ON LOSS ON ORDINARY ACTIVITIES

(a) The taxation charge is made up as follows:

	15 months ended 31 March 2004 £000	*Year ended 31 December 2002 £000*
UK corporation tax	-	-
Overseas taxation	2	13
Total current tax	2	13
Deferred taxation	-	-
	2	13

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(b) Factors affecting tax charge

The tax assessed on the loss on ordinary activities for the period to 31 March 2004 is higher (2002: higher) than the standard rate of corporation tax in the UK of 30%. The differences are reconciled below:

	15 months ended 31 March 2004 £000	*Year ended 31 December 2002 £000*
Loss on ordinary activities before tax	(7,847)	(3,060)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(2,354)	(918)
Overseas taxes not relieved in the UK	2	13
Expenses not deductible for tax purposes	152	23
Depreciation in excess of capital allowances	308	114
Other timing differences	-	8
Surrender of tax losses for no payment	-	773
Tax losses carried forward	1,894	-
Total current tax (note 8(a))	2	13

BALANCE SHEET
as at 31 March 2004

8. TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

(c) Factors that may affect future tax charges

The company has unutilised tax losses of £6,312,000 (2002: £nil). A deferred tax asset of £1,894,000 (2002: £nil) 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:

	31 March 2004 £000	*31 December 2002 £000*
Depreciation in excess of capital allowances	(744)	(436)
Other timing differences	(14)	(27)
Losses	(1,894)	-
	(2,622)	(463)

9. TANGIBLE FIXED ASSETS

	Leasehold Property £000	*Fixtures & Fittings £000*	*Total £000*
Cost:			
At 1 January 2003	469	8,750	9,219
Additions	120	733	853
Disposals	(50)	(928)	(978)
At 31 March 2004	539	8,555	9,094
Depreciation:			
At 1 January 2003	215	7,354	7,569
Charge for the period	43	821	864
Impairment losses	17	76	93
Disposals	(26)	(822)	(848)
At 31 March 2004	249	7,429	7,678
Net book value:			
At 31 March 2004	290	1,126	1,416
At 31 December 2002	254	1,396	1,650

Included in Fixtures and Fittings are assets held under finance leases and hire purchase contracts with a net book value of £131,000 (2002: £nil).

BALANCE SHEET
as at 31 March 2004

10. STOCKS

	31 March 2004 £000	*31 December 2002 £000*
Raw materials and consumables	195	409
Finished goods and goods for resale	5,448	5,276
	5,643	5,685

The stock value is not materially different from replacement cost.

11. DEBTORS

	31 March 2004 £000	*31 December 2002 £000*
Trade debtors	719	5,201
Amounts owed by group undertakings	415	-
Amounts owed by former group undertakings	-	12,872
Other debtors	96	-
Prepayments and accrued income	1,199	1,013
	2,429	19,086

12. CREDITORS: amounts falling due within one year

	31 March 2004 £000	*31 December 2002 £000*
Bank loan (note 13)	65	-
Bank overdraft	-	1,853
Invoice discounting	913	-
Obligations under finance leases and hire purchase contracts (note 14)	153	-
Trade creditors	4,087	2,286
Other taxes and social security costs	391	1,063
Other creditors	132	83
Amounts owed to group undertakings	365	-
Amounts owed to former group undertakings	-	562
Accruals	838	655
	6,944	6,502

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

BALANCE SHEET
as at 31 March 2004

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

	31 March 2004 £000	*31 December 2002 £000*
Bank loans	90	-
Obligations under finance leases and hire purchases contracts (note 14)	251	-
	341	-

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

	31 March 2004 £000	*31 December 2002 £000*
Repayable within one year	65	-
Repayable between one and two years	71	-
Repayable between two and five years	19	-
	155	-

14. OBLIGATIONS UNDER FINANCE LEASESAND HIRE PURCHASE CONTRACTS

	31 March 2004 £000	*31 December 2002 £000*
Future minimum payments under finance leases are as follows:		
Within one year	153	-
In more than one year, but not more than five years	251	-
	404	-

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Redundancy and restructuring £000
At 1 January 2003	-
Charged to profit and loss account	301
At 31 March 2004	301

BALANCE SHEET
as at 31 March 2004

16. SHARE CAPITAL

	31 March 2004 £000	31 December 2002 £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

17. RECONCILIATION OF SHAREHOLDERS' FUNDS

	Share capital £000	*Profit and loss account* £000	*Total* £000
At 1 January 2002	7,500	15,513	23,013
Retained loss for the year	-	(3,073)	(3,073)
At 1 January 2003	7,500	12,440	19,940
Retained loss for the period	-	(17,926)	(17,926)
At 31 March 2004	7,500	(5,486)	2,014

18. FINANCIAL COMMITMENTS

At 31 March 2004 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings		*Other*	
	31 March 2004 £000	*31 December 2002* £000	*31 March 2004* £000	*31 December 2002* £000
Within one year	1	53	11	-
In two to five years	452	363	14	25
Over five years	1,838	1,674	-	-
	2,291	2,090	25	25

19. 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 £12,850 (2002: £nil).

20. 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.

21. ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Harris Watson Investments Limited.

In the directors' opinion, the company's ultimate parent undertaking and controlling party at 31 March 2004 is Harris Watson Holdings plc. 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.