

COUNTRY CASUALS LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2008

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COUNTRY CASUALS LIMITED
REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JANUARY 2008

The Directors present the audited financial statements for the year ended 31 January 2008

Business Activities

The principal activities of the company are design, distribution and multiple retailing of ladies' fashion wear through free-standing shops and shop-in-shop concessions

The Directors expect that the present level of activity will continue to improve in the year ahead.

Business Review

Introduction

The CC brand, formally known as Country Casuals, targets affluent women in their 40's, 50's and 60's with co-ordinated collections of contemporary clothes. This female baby boomer generation is the focus of the business, CC exists to clothe them in a way that reflects their desire for modern, wearable fashion that is tailored to their needs. This generation is not ageing as previous generations did but is demanding more contemporary clothes that reflect current fashions. The distinct CC Petite range has grown strongly to nearly 25% of the brand sales. CC trades from 88 stores and 145 concessions.

Retail portfolio

Since 2005 an ongoing programme of store modernisations has been implemented, the effect of these store modernisations has resulted in a marked improvement in operating performance. Significant investment in further modernisations is planned for the year ahead. The average store is 1000 sq ft and located in affluent smaller towns with concessions operating in Department Stores in larger markets. The growth of CC continues to be accelerated through an expansion programme begun in 2006, to open 40 new CC stores over the next 3 years.

Key Performance Indicators

A range of performance measures are used by management to monitor and manage the business. Certain of these are of key importance in measuring past performance and providing information for the future development of the business, Return on Capital Employed (pre-exceptional), Sales Density (gross sales per sq ft) and Units per Customer.

E-commerce

The highly successful re-launch of the CC websites in March 2007 has generated significant increases in orders and transactions. The content and on-line shopping experience has been significantly improved and will continue to evolve, with the site expected to produce revenues akin to the brand's largest stores.

Marketing Strategy

The CC brand continues to gain distinction and authority with existing and target consumer groups through our marketing strategies. The response to the collaboration with Selina Scott on CC over the last two seasons has been excellent, and the aim has been to continue to work with credible parties across the brand. New campaigns feature Jan Francis and Jane Seymour for CC Petites and CC respectively.

Principal Risks and Uncertainties

The company purchases finished goods from the Far East in US dollars and is therefore exposed to movements in the US\$ to sterling exchange rate. The Finance Director monitors the net exposure

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and takes out forward contracts to fix the exchange rate to ensure that 90% of its requirement for the following 12 months is covered

The company has guaranteed the loans to its ultimate parent company AR Holdings Ltd. These loans with Landsbanki Commercial Finance totalling £18.75m are repayable in varying amounts between 2 and 8 years and bear interest charged at LIBOR plus a margin.

Results and Dividends

The profit and loss account for the year is set out on page 5. The profit for the year, after taxation, amounted to £2,171,839 (2007: £827,731).

The Directors do not recommend the payment of a dividend for the year ended 31 January 2008 (2007: £nil).

The Environment

The Health and Safety Committee meets regularly to consider a variety of health and safety issues applicable to the group. The Policy Manuals and Training Resources for both Store and Office Health and Safety have been updated and re-issued for all business locations during 2007. The group continues to adopt a centralised review and feedback mechanism.

The need for sound policies for the Environment is also recognised; the group is committed to meeting its responsibilities to ensure that both the Group and its suppliers of goods and services comply with relevant regulations and codes of practice. The Corporate Responsibility policy is embedded within the group's new Supplier Manual. The Environmental Committee meets regularly to develop and monitor initiatives to meet the increasing environmental requirements of all our stakeholders. A number of volunteer Environmental Champions are working to help to promote these initiatives within the group.

The committees include representatives from throughout the Group, and continue to be chaired by the Company Secretary. Their overall remit is to embed and further improve the co-ordination of sound risk management policies throughout the organisation.

Directors

The Directors of the company at 31 January 2008, all of whom have served throughout the year, unless otherwise stated were:

A Charlton
NW Hollingworth

Employment of Disabled Persons

The company continues to provide full and sympathetic consideration to the employment, training, career development and promotion of disabled people including those becoming disabled after their employment has commenced. Each case is considered on its individual circumstances.

Employee Communication

The company has maintained its arrangements for communication to employees through weekly newsletters, bulletins, periodic reports and the intranet. The Group also rolled out to all new stores a new operating system to provide online access to news and information.

Auditors and Annual General Meeting

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware

In accordance with the Companies Act 2006 the company continues to dispense with the holding of Annual General Meetings, of laying financial statements and reports before the company in General Meeting, and with the obligation to reappoint the auditors annually

Payment of Suppliers

It is the company's policy to pay its suppliers in accordance with the terms of trade, which are agreed at the time of order

The Company's average credit payment period at 31 January 2008 was 22 days (2007 20 days)

Social Responsibility

During the year £500 was donated to charity by the company, which included donations to Marie Curie Cancer Care

Statement Of Directors' Responsibilities

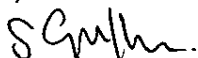
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare financial statements for each financial year 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 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 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 the financial statements comply with the Companies Act 2006 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

By Order of the Board



Sue Griffiths
Company Secretary
10 September 2008

Independent auditor's report to the shareholders of Country Casuals Limited

We have audited the financial statements of Country Casuals Limited for the year ended 31 January 2008 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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 and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those 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.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

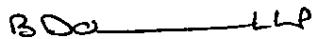
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

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 January 2008 and of its profit 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.


BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London

10th September 2008

For the year ended 31 January 2008

	Notes	Before Exceptional Items £	Exceptional Items £	2008 £	Before Exceptional Items £	Exceptional Items £	2007 £
Turnover	2	50,378,337	-	50,378,337	45,705,843	-	45,705,843
Cost of sales		19,061,778	-	19,061,778	17,688,043	-	17,688,043
Gross profit		31,316,559	-	31,316,559	28,017,800	-	28,017,800
Net operating expenses	3	28,605,804	(226,766)	28,379,038	25,949,784	750,000	26,699,784
Operating profit	5	2,710,755	226,766	2,937,521	2,068,016	(750,000)	1,318,016
Interest payable	4	(22,100)	-	(22,100)	(53,300)	-	(53,300)
Profit/(loss) on ordinary activities before taxation		2,688,655	226,766	2,915,421	2,014,716	(750,000)	1,264,716
Taxation	9	675,552	68,030	743,582	661,985	(225,000)	436,985
Profit/(loss) for the financial year	16	2,013,103	158,736	2,171,839	1,352,731	(525,000)	827,731

All results derive from continuing operations

There is no difference between the profit on ordinary activities before taxation and the profit retained for the year stated above, and their historical cost equivalents

COUNTRY CASUALS LIMITED
BALANCE SHEET

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at 31 January 2008

	Notes	2008	2007
		£	£
FIXED ASSETS			
Tangible assets	10	5,377,954	3,875,474
CURRENT ASSETS			
Stock	11	6,455,157	4,897,140
Debtors	12	5,000,739	4,443,669
Cash at bank and in hand		142,564	88,941
		<u>11,598,460</u>	<u>9,429,750</u>
CREDITORS			
Amounts falling due within one year	13	<u>6,088,018</u>	<u>4,745,227</u>
NET CURRENT ASSETS		5,510,442	4,684,523
Total assets less current liabilities		<u>10,888,396</u>	<u>8,559,997</u>
CREDITORS			
Amounts falling due after more than one year	14	145,699	43,653
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	9	92,894	38,380
NET ASSETS		<u>10,649,803</u>	<u>8,477,964</u>
<u>CAPITAL AND RESERVES</u>			
Called up share capital	15	2,001	2,001
Profit and loss account	16	10,647,802	8,475,963
Shareholder's funds	17	<u>10,649,803</u>	<u>8,477,964</u>

The financial statements on pages 5 to 14 were approved by the Board of Directors and authorised for issue on 10 September 2008 and are signed on its behalf by

A Charlton

Director



at 31 January 2008

1 ACCOUNTING POLICIES

The accounting policies have been applied consistently throughout the periods under review and are in accordance with applicable United Kingdom Accounting Standards

The financial statements have been prepared under the historical cost convention

Turnover

Turnover is the amount receivable from customers. Turnover excludes Value Added Tax and is recognised at the point of sale.

The Company operates concessionary arrangements whereby it sells stock for a third party. The Company acts as an undisclosed agent and therefore the Company recognises the total value of sales in turnover. For the year to January 2008 this amounted to £344,295 (2007: £482,263).

Fixed Assets and Depreciation

Fixtures and equipment are accounted for on a depreciated cost basis.

It is general policy to write-off the historical cost of fixtures and fittings in even amounts over 10 years and computer equipment over 4 years.

Stocks

Stocks of merchandise and materials are valued at the lower of cost and net realisable value. Provision is made for any obsolete and slow moving stock.

Deferred Taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign Currencies

Profit and loss items are translated at average rates of exchange during the year. Assets and liabilities are translated at the rates ruling at the end of the year with the exception of foreign currency debtors and creditors that are hedged by foreign currency forward contracts, which are translated at the forward rate. All other exchange differences are taken to the profit and loss account.

Pension Scheme

The company's pensionable employees are members of the Austin Reed Group Pension Fund. Contributions are paid to the scheme in accordance with the recommendations of an independent actuary.

It is not possible to separately identify the effects that the adoption of FRS 17 has on the financial statements of Country Casuals Limited alone. The pension scheme has been accounted for on a deferred contribution basis in these financial statements.

Operating Leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term. Premiums are charged to the profit and loss account over the shorter of the lease term and the period to the first market rent review.

at 31 January 2008

1 ACCOUNTING POLICIES (Continued)

Cash Flow Statement

The company is a wholly-owned subsidiary of Austin Reed Group Limited and the cash flows of the company are included in the consolidated group cash flow statement of Austin Reed Group Limited. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 from publishing a cash flow statement.

2 SEGMENT ANALYSIS

Turnover

	2008	2007
	£	£
Sales by destination		
United Kingdom	47,339,713	43,306,751
Continental Europe	3,038,624	2,399,092
	<u>50,378,337</u>	<u>45,705,843</u>

All sales originate from the United Kingdom.

It is not possible to analyse profit before taxation by geographic segment, therefore it has not been presented above.

All net assets are situated in the United Kingdom.

3 NET OPERATING EXPENSES

Net operating expenses are analysed as follows -

	2008	2007
	£	£
Selling expenses	26,523,615	23,491,844
Administration expenses	1,855,423	3,207,940
	<u>28,379,038</u>	<u>26,699,784</u>

4 INTEREST PAYABLE

	2008	2007
	£	£
Interest payable to parent company	22,100	53,300
	<u>22,100</u>	<u>53,300</u>

5 OPERATING PROFIT

	2008	2007
	£	£
Operating profit is stated after charging/(crediting)		
Depreciation	793,147	684,079
Loss on sale of fixed assets	135,644	56,892
Operating leases - land & buildings	3,940,833	3,684,304
- plant & machinery	42,860	30,866
Foreign currency (gains)/losses	(529,622)	14,477
Auditors remuneration - Audit fees	12,000	12,000
Exceptional items	(226,766)	750,000

at 31 January 2008

6 OPERATING LEASE COMMITMENTS

	2008		2007	
	Land & Buildings £	Plant & Machinery £	Land & Buildings £	Plant & Machinery £
Annual commitments under operating leases at 31 January 2008 are as follows				
Expiring within one year	343,315	15,746	139,700	2,100
Expiring between two and five years	797,800	13,031	978,930	28,766
Expiring in over five years	3,046,817	-	2,486,550	-
	<u>4,187,932</u>	<u>28,777</u>	<u>3,605,180</u>	<u>30,866</u>

7 EMPLOYEES

The average number of persons employed by the company including Executive Directors during the year is analysed below -

	2008 Number	2007 Number
Selling and administration	<u>578</u>	<u>469</u>
Staff costs during the year amounted to		
	£	£
Wages and salaries	8,742,526	7,640,376
Social security costs	541,755	458,747
Other pension costs (note 19)	206,450	203,625
	<u>9,490,731</u>	<u>8,302,748</u>

Directors' Remuneration

None of the directors received any emoluments or had pension contributions made on their behalf in respect of services to the company in either year

8 EXCEPTIONAL ITEMS

The operating income and expenses comprise items which are exceptional by way of their nature or size and are therefore disclosed separately. These amounted to £226,766.

During the year, the Company completed a deal to terminate a lease on a vacant warehouse in East Kilbride. The exceptional income relates to the unutilised portion of a provision that had previously been made in respect of its future lease obligations.

The tax charge for the year includes a charge of £68,030 in respect of these items.

at 31 January 2008

9 TAXATION

The taxation charge which is based on the profit for the year is made up as follows -

	2008 £	2007 £
Current tax		
UK Corporation tax at 30% (2007 - 30%)	796,792	268,668
Adjustments in respect of prior years	(107,724)	35,281
	689,068	303,949
Less relief for overseas tax	(64,916)	(26,101)
	624,152	277,848
Overseas taxation	64,916	26,102
Total current tax charge	689,068	303,950
Deferred tax		
Origination and reversal of timing differences	113,977	130,953
Adjustments in respect of prior years	(59,463)	2,082
	54,514	133,035
Total tax charge for the year	743,582	436,985
Reconciliation of current tax charge		
Profit on ordinary activities before taxation	2,915,421	1,264,716
Expected tax charge at standard rate	874,626	379,415
Expenses not deductible for corporation tax purposes	42,831	31,740
Accelerated capital allowances & other timing differences	(120,665)	(133,988)
Adjustments to tax charge in respect of prior years	2,378	24,697
Receipts for group relief	(144,613)	-
Relief for overseas losses	34,511	5,292
Marginal relief	-	(3,206)
Current tax charge for the year	689,068	303,950

Deferred taxation provided for in the accounts at 30 0% (2007 - 30 0%) is as follows -

	2008 £	2007 £
Amount provided at beginning of year	38,380	(94,655)
Charged to profit and loss account	54,514	133,035
	92,894	38,380
Deferred taxation is provided on		
Accelerated capital allowances	110,144	41,162
Short term timing differences	(17,250)	(2,782)
Deferred tax liability	92,894	38,380

at 31 January 2008

10 TANGIBLE FIXED ASSETS

	Fixtures & Equipment £	Total £
Cost		
At 31 January 2007	7,655,541	7,655,541
Additions	2,431,271	2,431,271
Disposals	(263,485)	(263,485)
Written-out	(1,369,372)	(1,369,372)
At 31 January 2008	<u>8,453,955</u>	<u>8,453,955</u>
Depreciation		
At 31 January 2007	3,780,067	3,780,067
Charges in the year	793,147	793,147
Disposals	(127,841)	(127,841)
Written-out	(1,369,372)	(1,369,372)
At 31 January 2008	<u>3,076,001</u>	<u>3,076,001</u>
Net book value		
At 31 January 2008	<u>5,377,954</u>	<u>5,377,954</u>
At 31 January 2007	<u>3,875,474</u>	<u>3,875,474</u>

11. STOCK

	2008 £	2007 £
Finished Garments	6,455,157	4,897,140
	<u>6,455,157</u>	<u>4,897,140</u>

There is no material difference between the replacement cost of stocks and the amounts stated above

at 31 January 2008

12 DEBTORS

Amounts falling due within one year

	2008	2007
	£	£
Trade debtors	3,827,583	3,635,991
Other debtors	71,170	2,887
Corporation tax recoverable	156,806	-
Prepayments	945,180	804,791
	<u>5,000,739</u>	<u>4,443,669</u>

13 CREDITORS

Amounts falling due within one year

	2008	2007
	£	£
Trade creditors	3,108,907	1,498,437
Amounts due to parent company	666,321	1,166,421
Other taxation and social security	554,413	687,692
Other creditors and accruals	1,758,377	1,392,677
	<u>6,088,018</u>	<u>4,745,227</u>

14 CREDITORS

Amounts falling due after more than one year

	2008	2007
	£	£
Deferred income	145,699	43,653
	<u>145,699</u>	<u>43,653</u>

NOTES TO THE FINANCIAL STATEMENTS

at 31 January 2008

15 SHARE CAPITAL

	2008 £	2007 £
<u>Authorised</u>		
Ordinary Shares of £1 each	<u>5,000</u>	<u>5,000</u>
<u>Issued, called up and fully paid</u>		
Ordinary Shares of £1 each	<u>2,001</u>	<u>2,001</u>

16 PROFIT AND LOSS ACCOUNT

	2008 £
At 1 February 2007	8,475,963
Profit for the year	<u>2,171,839</u>
At 31 January 2008	<u>10,647,802</u>

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	2008 £
Opening shareholder's funds	8,477,964
Profit for the year	<u>2,171,839</u>
Closing shareholder's funds	<u>10,649,803</u>

18 FUTURE CAPITAL EXPENDITURE

	2008 £	2007 £
Contracts for capital expenditure for which provision has not been made in the accounts	<u>140,000</u>	<u>107,000</u>

at 31 January 2008

19 PENSION SCHEME

Eligible employees are members of the Austin Reed Group Pension Fund (the Fund)

The majority of the defined benefit section of the Fund is contracted out of SERPS. The latest triennial actuarial valuation was conducted by an independent actuary as at 1 April 2004 using the projected unit method. The valuation assumed that investment returns up to retirement would exceed general salary increases by 2.9% and that pension, once in payment, would increase inline with general price inflation (up to a limit of 5%). The valuation showed the Fund was under-funded at 1 April 2004 with assets representing 84% of the value of liabilities. At the valuation date, the market value of assets was £58.3 million.

Under the requirements of FRS17, additional disclosure is required. However, as the assets of the Fund cannot be identified between those attributable to Country Casuals and those attributable to other Fund members, this disclosure has not been provided. Additional disclosure for the whole Fund is provided in the financial statements of Austin Reed Group Limited.

20 ULTIMATE CONTROLLING PARTY

The company is a wholly owned subsidiary of Austin Reed Group Limited, a company registered in England. Under the terms of Financial Reporting Standard No. 8 Country Casuals Limited is exempt from disclosing related party transactions and balances with entities within the Austin Reed Group Limited group of companies.

The ultimate controlling party is AR Holdings Limited. Copies of the consolidated accounts of AR Holdings Limited may be obtained from The Secretary, Station Road, Thirsk, North Yorkshire YO7 1QH.