

Company Registration No. 03970757 (England and Wales)

LILESTONE PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2006

THURSDAY



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COMPANIES HOUSE

Jeffreys Henry LLP

Finsgate
5-7 Cranwood Street
London
EC1V 9EE

LILESTONE PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2006

The directors present their report and financial statements for the year ended 30 September 2006

Principal activities and review of the business

The principal activity of the company continued to be that of designing, wholesaling, and retailing lingerie and ladies lifestyle products

We are pleased to report that the company has made good progress this year towards achieving its goal of establishing Myla as a leading international luxury lingerie and ladies lifestyle brand

Results and dividends

The results for the year are set out on page 5

Key performance indicators

We managed to both increase turnover and gross margins in the year

Key risks and uncertainties

The directors expect significant increases in turnover to continue which should in turn develop increases in the gross margin. There are external factors which affect our ability to achieve gross margin increases such as the need to maintain a competitive pricing policy and the cost prices of our raw materials. However, we feel that our position as a premium brand allows us to pass on any cost price increases

Post balance sheet events and future developments

For the financial year ending 30 September 2007, we are trading in line with our budget with sales increases significantly above the previous year

Directors

The following directors have held office since 1 October 2005

| | |
|-----------------|------------------------|
| C Semler West | (Resigned 16 May 2007) |
| N M Hampson | (Resigned 1 July 2006) |
| L E M Gestetner | |
| D Gestetner | |

Directors' interests

The directors' interests in the shares of the company were as stated below

| | Ordinary shares of 1p each | |
|-----------------|----------------------------|----------------|
| | 30 September 2006 | 1 October 2005 |
| C Semler West | 2,811,681 | 2,811,681 |
| L E M Gestetner | - | - |
| D Gestetner | - | - |

Creditor payment policy

The company policy is to settle trade creditors in accordance with agreed payment terms. The average creditor days at 30 September 2006 were 88 days (2005 - 66 days)

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Jeffrey's Henry LLP be reappointed as auditors of the company will be put to the Annual General Meeting

LILESTONE PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable 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 those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

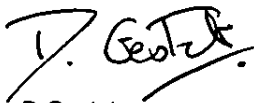
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



D Gestetner

Director

30 July 2007

LILESTONE PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LILESTONE PLC

We have audited the financial statements of Lilestone Plc for the year ended 30 September 2006 set out on pages 5 to 16. These financial statements have been prepared under 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 the directors and auditors

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 are properly prepared in accordance with the Companies Act 1985, and whether in our opinion 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.

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.

LILESTONE PLC

INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE SHAREHOLDERS OF LILESTONE PLC

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 30 September 2006 and of its loss for the year then ended and 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

Jeffreys Henry LLP



30 July 2007

Chartered Accountants

Registered Auditor

Finsgate
5-7 Cranwood St
London
Great Britain
EC1V 9EE

LILESTONE PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 2006

| | | Year to 30 September 2006 £ | 17 months to 30 September 2005 £ |
|--|-------|--------------------------------------|---|
| | Notes | | |
| Turnover | 2 | 2,266,095 | 3,359,327 |
| Cost of sales | | (657,758) | (938,592) |
| Gross profit | | 1,608,337 | 2,420,735 |
| Distribution costs | | (322,850) | (466,807) |
| Administrative expenses | | (2,782,594) | (2,570,355) |
| Other operating income | | 42,508 | 18,750 |
| Operating loss | 3 | (1,454,599) | (597,677) |
| Other interest receivable and similar income | 4 | 2,739 | 1,852 |
| Amounts written off investments | 5 | (344,230) | (261,982) |
| Interest payable and similar charges | 6 | (4,176) | (49,504) |
| Loss on ordinary activities before taxation | | (1,800,266) | (907,311) |
| Tax on loss on ordinary activities | 7 | - | - |
| Loss on ordinary activities after taxation | 15 | (1,800,266) | (907,311) |

The profit and loss account has been prepared on the basis that all operations are continuing operations

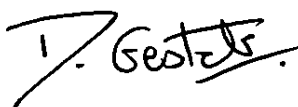
There are no recognised gains and losses other than those passing through the profit and loss account

LILESTONE PLC

BALANCE SHEET AS AT 30 SEPTEMBER 2006

| | Notes | 2006 £ | £ | 2005 £ | £ |
|--|-------|--------------------|--------------------|------------------|------------------|
| Fixed assets | | | | | |
| Tangible assets | 8 | 100,265 | | 96,626 | |
| Investments | 9 | 557 | | 557 | |
| | | <u>100,822</u> | | <u>97,183</u> | |
| Current assets | | | | | |
| Stocks | 10 | 495,981 | | 274,470 | |
| Debtors | 11 | 464,844 | | 325,143 | |
| Cash at bank and in hand | | 40,123 | | 30,196 | |
| | | <u>1,000,948</u> | | <u>629,809</u> | |
| Creditors amounts falling due within one year | 12 | (2,658,945) | | (1,412,680) | |
| Net current liabilities | | | (1,657,997) | | (782,871) |
| Total assets less current liabilities | | | <u>(1,557,175)</u> | | <u>(685,688)</u> |
| Capital and reserves | | | | | |
| Called up share capital | 14 | 1,007,505 | | 98,226 | |
| Share premium account | 15 | 1,594,282 | | 1,574,782 | |
| Profit and loss account | 15 | (4,158,962) | | (2,358,696) | |
| Shareholders' funds - equity interests | 16 | <u>(1,557,175)</u> | | <u>(685,688)</u> | |

The financial statements were approved by the Board and authorised for issue on 30 July 2007



D Gestetner
Director

LILESTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2006

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention

The balance sheet as at 30 September 2006 shows a deficit of £1,557,175. However, the parent company, Lilestone Holdings Limited, has indicated its willingness to provide support to the company. On this basis the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the withdrawal of the support from the parent company.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 percent or more of the voting rights are controlled within the group.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards, which have been applied consistently (except as otherwise stated).

1.3 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

| | |
|--------------------------------|--------------------------------|
| Plant and machinery | Over five and ten years |
| Fixtures, fittings & equipment | Over five, seven and ten years |

1.5 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.6 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.7 Stock

Stock is valued at the lower of cost and net realisable value.

1.8 Pensions

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

LILESTONE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

1 Accounting policies

(continued)

1.9 Deferred taxation

Deferred tax is recognised in respect of 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

(i) 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 the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

1.10 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom

3 Operating loss

| | Year to 17 months to 30 September 2006 | 30 September 2005 |
|---|---|-------------------|
| | £ | £ |
| Operating loss is stated after charging | | |
| Depreciation of tangible assets | 36,580 | 51,235 |
| Loss on foreign exchange transactions | 6 | 428 |
| Operating lease rentals | 304,148 | 389,606 |
| Auditors' remuneration | 13,000 | 15,000 |
| Remuneration of auditors for non-audit work | 5,817 | 28,383 |
| and after crediting | | |
| Profit on disposal of tangible assets | - | (1,996) |

4 Investment income

| | Year to 17 months to 30 September 2006 | 30 September 2005 |
|---------------|---|-------------------|
| | £ | £ |
| Bank interest | 2,739 | 1,852 |

LILESTONE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

| 5 | Amounts written off investments | Year to 17 months to | |
|---|---|----------------------|-------------------|
| | | 30 September 2006 | 30 September 2005 |
| | | £ | £ |
| | Amounts written off current asset investments | <u>344,230</u> | <u>261,982</u> |

These are provisions against intercompany balances with Myla Inc and Myla Investments Limited

| 6 | Interest payable | Year to 17 months to | |
|---|------------------------------|----------------------|-------------------|
| | | 30 September 2006 | 30 September 2005 |
| | | £ | £ |
| | On bank loans and overdrafts | 4,176 | 8,201 |
| | Other interest | - | 41,303 |
| | | <u>4,176</u> | <u>49,504</u> |

LILESTONE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

| 7 Taxation | Year to 30 September 2006 | 17 months 30 September 2005 |
|---|---------------------------------|-----------------------------------|
| Current tax charge | - | - |
| Factors affecting the tax charge for the year | | |
| Loss on ordinary activities before taxation | (1,800,266) | (907,311) |
| Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19.00% (2005 19.00%) | (342,051) | (172,389) |
| Effects of | | |
| Non deductible expenses | 67,011 | 50,279 |
| Depreciation add back | 6,950 | 9,735 |
| Capital allowances | (9,028) | (14,143) |
| Chargeable disposals | - | (379) |
| Other tax adjustments | 277,118 | 126,897 |
| | 342,051 | 172,389 |
| Current tax charge | - | - |

The company has estimated losses of £ 3,741,589 (2005 £ 2,307,210) available for carry forward against future trading profits

On the basis of these financial statements no provision has been made for corporation tax. On the basis of these financial statements no provision has been made for corporation tax. The company has a deferred tax asset at 19% (2005 - 19%) of 714,351 (2005 - £443,897) in respect of tax losses of £3,741,589 (2005 - £2,307,210) and depreciation in excess of capital allowances of £18,151 (2005 - £29,088) which has not been provided in the accounts due to uncertainty of recovery.

LILESTONE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

8 Tangible fixed assets

| | Plant and machinery | Fixtures, fittings & equipment | Total |
|-----------------------|------------------------|--------------------------------------|---------|
| | £ | £ | £ |
| Cost | | | |
| At 1 October 2005 | 62,193 | 135,281 | 197,474 |
| Additions | 22,119 | 18,100 | 40,219 |
| | <hr/> | <hr/> | <hr/> |
| At 30 September 2006 | 84,312 | 153,381 | 237,693 |
| | <hr/> | <hr/> | <hr/> |
| Depreciation | | | |
| At 1 October 2005 | 28,945 | 71,903 | 100,848 |
| Charge for the year | 7,982 | 28,598 | 36,580 |
| | <hr/> | <hr/> | <hr/> |
| At 30 September 2006 | 36,927 | 100,501 | 137,428 |
| | <hr/> | <hr/> | <hr/> |
| Net book value | | | |
| At 30 September 2006 | 47,385 | 52,880 | 100,265 |
| | <hr/> | <hr/> | <hr/> |
| At 30 September 2005 | 37,301 | 72,712 | 96,626 |
| | <hr/> | <hr/> | <hr/> |

LILESTONE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

9 Fixed asset investments

| | Shares in subsidiary undertakings £ |
|-----------------------|--|
| Cost | |
| At 1 October 2005 | 557 |
| Additions | 1 |
| Disposals | (1) |
| At 30 September 2006 | 557 |
| Net book value | |
| At 30 September 2006 | 557 |
| At 30 September 2005 | 557 |

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies

| Company | Country of registration or incorporation | Class | Shares held % |
|--------------------------------|--|----------|---------------|
| Subsidiary undertakings | | | |
| Myla Limited | England and Wales | Ordinary | 100 00 |
| Myla Inc | U S A | Ordinary | 100 00 |
| Myla Investments Limited | Ireland | Ordinary | 100 00 |

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows

| | Principal activity | Capital and reserves 2006 £ | Profit for the year 2006 £ |
|--------------------------|---------------------------------------|-----------------------------------|----------------------------------|
| Myla Limited | Dormant | 1 | - |
| Myla Inc | Retailer of ladies lifestyle products | (297,744) | (156,427) |
| Myla Investments Limited | Retailer of ladies lifestyle products | (41,297) | (41,298) |

| 10 Stocks | 2006 £ | 2005 £ |
|-------------------------------------|-----------|-----------|
| Finished goods and goods for resale | 495,981 | 274,470 |

LILESTONE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

| 11 Debtors | 2006 £ | 2005 £ |
|--------------------------------|----------------|----------------|
| Trade debtors | 132,143 | 86,582 |
| Other debtors | 196,199 | 105,100 |
| Prepayments and accrued income | 136,502 | 133,461 |
| | <u>464,844</u> | <u>325,143</u> |

| 12 Creditors: amounts falling due within one year | 2006 £ | 2005 £ |
|---|------------------|------------------|
| Bank loans and overdrafts | 62,175 | 208,205 |
| Trade creditors | 551,284 | 593,448 |
| Amounts owed to parent and fellow subsidiary undertakings | 1,690,727 | 150,000 |
| Taxes and social security costs | 45,174 | 105,348 |
| Other creditors | 184,386 | 233,341 |
| Accruals and deferred income | 125,199 | 122,338 |
| | <u>2,658,945</u> | <u>1,412,680</u> |

The bank loans and overdrafts are secured by a charge over the Company's assets

13 Pension costs

Defined contribution

| | 2006 £ | 2005 £ |
|---|--------------|-----------|
| Contributions payable by the company for the year | <u>7,877</u> | <u>-</u> |

LILESTONE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

| 14 Share capital | 2006 £ | 2005 £ |
|---|------------------|------------------|
| Authorised | | |
| 120,000,000 Ordinary shares of 1p each | <u>1,200,000</u> | <u>1,000,000</u> |
| Allotted, called up and fully paid | | |
| 100,750,500 Ordinary shares of 1p each | <u>1,007,505</u> | <u>98,226</u> |

On 30 September 2005 the authorised share capital was increased by £200,000 by the creation of 20,000,000 ordinary shares of 1p each. During the year, the company issued 90,877,869 shares to Lilestone Holdings Limited for a share for share exchange. During the year the company loan notes were converted to 50,000 Ordinary shares of 1p each for a consideration of 40p each.

15 Statement of movements on reserves

| | Share premium account £ | Profit and loss account £ |
|--|----------------------------------|---------------------------------|
| Balance at 1 October 2005 | 1,574,782 | (2,358,696) |
| Retained loss for the year | - | (1,800,266) |
| Premium on shares issued during the period | <u>19,500</u> | <u>-</u> |
| Balance at 30 September 2006 | <u>1,205,756</u> | <u>(4,158,962)</u> |

| 16 Reconciliation of movements in shareholders' funds | 2006 £ | 2005 £ |
|---|--------------------|------------------|
| Loss for the financial year | (1,800,266) | (907,311) |
| Proceeds from issue of shares | <u>928,779</u> | <u>104,250</u> |
| Net depletion in shareholders' funds | (871,487) | (803,061) |
| Opening shareholders' funds | <u>(685,688)</u> | <u>117,373</u> |
| Closing shareholders' funds | <u>(1,557,175)</u> | <u>(685,688)</u> |

LILESTONE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

17 Financial commitments

At 30 September 2006 the company was committed to making the following payments under non-cancellable operating leases in the year to 30 September 2007

| | Land and buildings | | | |
|-------------------------------|--------------------|----------------|---------------|---------------|
| | 2006 | 2005 | 2006 | Other 2005 |
| | £ | £ | £ | £ |
| Operating leases which expire | | | | |
| Within one year | 55,583 | - | 11,520 | - |
| In over five years | 282,908 | 258,500 | - | - |
| | <u>338,491</u> | <u>258,500</u> | <u>11,520</u> | <u>-</u> |

18 Directors' emoluments

| | 2006 | 2005 |
|------------------------------------|----------------|----------------|
| | £ | £ |
| Emoluments for qualifying services | 103,333 | 243,726 |
| Compensation for loss of office | 32,770 | - |
| | <u>136,103</u> | <u>243,726</u> |

19 Employees

Number of employees

The average monthly number of employees (including directors) during the year was

| | 2006 Number | 2005 Number |
|--------------------------|----------------|----------------|
| Directors | 2 | 2 |
| Administration and Sales | 48 | 43 |
| | <u>50</u> | <u>45</u> |

Employment costs

| | 2006 £ | 2005 £ |
|-----------------------|------------------|------------------|
| Wages and salaries | 1,060,399 | 1,139,206 |
| Social security costs | 96,360 | 109,419 |
| Other pension costs | 7,877 | - |
| | <u>1,164,636</u> | <u>1,248,625</u> |

LILESTONE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

20 Control

The immediate parent company is Lilestone Holdings Limited, a company registered in England and Wales

Lilestone Holdings Limited prepares group financial statements and copies can be obtained from Finsgate, 5-7 Cranwood St, London, EC1V 9EE The ultimate controlling party is Lilestone Holdings Limited

21 Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies

| Company | Country of registration or incorporation | Class | Shares held % |
|--------------------------------|--|----------|---------------|
| Subsidiary undertakings | | | |
| Myla Limited | England and Wales | Ordinary | 100 00 |
| Myla Inc | U S A | Ordinary | 100 00 |
| Myla Investments Limited | Ireland | Ordinary | 100 00 |

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows

| | | Capital and reserves 2006 | Profit for the year 2006 |
|--------------------------|---------------------------------------|------------------------------|-----------------------------|
| | Principal activity | £ | £ |
| Myla Limited | Dormant | 1 | - |
| Myla Inc | Retailer of ladies lifestyle products | (297,744) | (156,427) |
| Myla Investments Limited | Retailer of ladies lifestyle products | (41,297) | (41,298) |