Grant Thornton

Financial statements
Lilestone plc

For the Year Ended 30 September 2007

Company No. 03970757

Report of the directors

Report of the directors

The directors present their report and the financial statements of the company for the year ended 30 September 2007

Principal activities and business review

The principal activity of the company during the year 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 9

Financial risk management objectives and policies

The company uses various financial instruments these include loans, cash, equity investments, and various items, such as trade debtors and trade creditors that arise directly from its operations The main purpose of these financial instruments is to raise finance for the company's operations

The main risks arising from the company's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk The directors review and agree policies for managing each of these risks and they are summarised below These policies have remained unchanged from previous years

Currency risk

The company is exposed to translation and transaction foreign exchange risk

Some sales and stock purchases made by the company are in Euros and US Dollars The company reviews the net exposure and seeks to hedge against it in order to add a degree of certainty to the product cost in Sterling terms

Liquidity risk

The company policy throughout the year has been to ensure continuity of funding through equity financing and long term debt but to manage working capital requirements through agreeing longer credit terms with our trade suppliers

Interest rate risk

The company applies a floating rate policy for all funding currencies It is the company's understanding that a short term interest rate adjustment leads to lower funding costs over the long term

Credit risk

The company's principal financial assets are trade debtors In order to manage credit risk the directors set limits for customers based on a combination of payment history, third party credit references and anticipated turnover Credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history No customer during 2007 represented more than 5% of the company's total turnover

Report of the directors

Future developments

The Directors remain confident that the company will continue to make progress in all of its major markets

Directors

The directors who served the company during the year were as follows

D Gestetner
L Gestetner
C Semler West

C Semler West retired as a director on 16 May 2007

Policy on the payment of creditors

The company policy is to settle trade creditors in accordance with agreed payment terms The average creditor days at 30 September 2007 were 80 days (2006 88 days)

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 these 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,
- 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 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

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Auditor

Grant Thornton UK LLP were appointed auditors on 29 January 2008 to fill a casual vacancy in accordance with section 388(1) of the Companies Act 1985

ON BEHALF OF THE BOARD

D Gestetner
Director

8 OCTOBER 2008

Grant Thornton

Report of the independent auditor to the members of Lilestone plc

We have audited the financial statements of Lilestone plc for the year ended 30 September 2007 on pages 10 - 17 These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9

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 auditor's 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 auditor

The directors' responsibilities for preparing the Report of the Directors and the financial statements in accordance with United Kingdom law and 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 are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Report of the Directors 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 Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of 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

Report of the independent auditor to the members of Lilestone plc (continued)

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 30 September 2007 and of its 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 Report of the Directors is consistent with the financial statements

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON

Date 9 October 2008

Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable UK accounting standards

Lilestone Plc are not required to prepare group financial statements The company has taken advantage of criteria detailed in UK GAAP allowing an intermediate holding company whose immediate parent undertaking is established in a member state of the European Economic Area (EEA) to be exempt from preparing group accounts

The balance sheet as at 30 September 2007 shows a deficit of £3,764,659 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 This financial statements do not include any adjustments that would result from the withdrawal of the support from the parent company

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax

Fixed assets

All fixed assets are initially recorded at cost

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Fixtures & fittings	-	Over five years
Equipment	-	Over five years

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease

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 exceptions

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold

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

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction Exchange differences are taken into account in arriving at the operating profit

Profit and loss account

	Note	2007 £	2006 £
Turnover		**3,622,446**	2,266,095
Cost of sales		**1,139,344**	657,758
Gross profit		**2,483,102**	1,608,337
Other operating charges	1	**4,761,075**	3,105,444
Other operating income	2	**(16,601)**	(42,508)
Operating loss	3	**(2,261,371)**	(1,454,599)
Interest receivable	6	**2,881**	2,739
Amounts written off investments	7	**(213,764)**	(344,230)
Interest payable and similar charges		**(8,229)**	(4,176)
Loss on ordinary activities before taxation		**(2,480,484)**	(1,800,266)
Tax on loss on ordinary activities	8	-	-
Loss for the financial year		**(2,480,484))**	(1,800,266)
Balance brought forward		**(4,158,962)**	(2,358,696)
Balance carried forward		**(6,639,446)**	(4,158,962)

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the results for the year as set out above

Balance sheet

	Note	2007 £	2006 £
Fixed assets			
Tangible assets	10	**267,355**	100,265
Investments	11	**557**	557
		267,912	100,822
Current assets			
Stocks	12	**649,634**	495,981
Debtors	13	**818,754**	464,844
Cash at bank and in hand		**152,378**	40,123
		1,620,766	1,000,948
Creditors. amounts falling due within one year	14	**5,926,337**	2,658,945
Net current liabilities		**(4,305,571)**	(1,657,997)
Total assets less current liabilities		**(4,037,659)**	(1,557,175)
Capital and reserves			
Called-up equity share capital	17	**1,007,505**	1,007,505
Share premium account	18	**1,594,282**	1,594,282
Profit and loss account	19	**(6,639,446)**	(4,158,962)
Deficit	20	**(4,037,659)**	(1,557,175)

These financial statements have been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985

These financial statements were approved by the directors and authorised for issue on 8-10-08, and are signed on their behalf by

D Gestetner
Director

Notes to the financial statements

1 Other operating charges

	2007 £	2006 £
Distribution costs	**595,915**	322,850
Administrative expenses	**4,165,160**	2,782,594
	4,761,075	3,105,444

2 Other operating income

	2007 £	2006 £
Other operating income	**16,601**	42,508

3 Operating loss

Operating loss is stated after charging

	2007 £	2006 £
Depreciation of owned fixed assets	**68,744**	36,580
Operating lease costs		
Other	**350,548**	291,148
Net loss on foreign currency translation	**4,157**	6
Auditor's remuneration - audit of the financial statements	**15,000**	13,000
Auditor's remuneration - other fees	**3,250**	5,817

4 Particulars of employees

The average number of staff employed by the company during the financial year amounted to

	2007 No	2006 No
Number of administrative staff	68	48
Number of management staff	2	2
	70	50

The aggregate payroll costs of the above were

	2007 £	2006 £
Wages and salaries	1,804,311	1,060,399
Social security costs	151,687	96,360
Other pension costs	298	7,877
	1,956,296	1,164,636

5 Directors

Remuneration in respect of directors was as follows

	2007 £	2006 £
Emoluments	15,000	103,333
Compensation for loss of directorship	-	32,770
	15,000	136,103

6 Interest receivable

	2007 £	2006 £
Other loan interest receivable	2,881	2,739

7 Amounts written off investments

	2007 £	2006 £
Amount written off investments	213,764	344,230

8 Taxation on ordinary activities

Factors affecting current tax charge

	2007 £	2006 £
Loss on ordinary activities before taxation	**(2,480,484)**	(1,800,266)
Loss on ordinary activities by rate of tax	**(744,145)**	(342,051)
Expenses not deductible for tax purposes	**69,782**	73,961
Capital allowances for period in excess of depreciation	**21,151**	(9,028)
Increase in tax losses	**602,408**	277,118
Difference in tax rates	**44,540**	-
Group relief	**6,264**	-
Total current tax	**-**	-

9 Deferred taxation

Unprovided deferred tax

	2007 £	2006 £
Depreciation in excess of capital allowances	**(749)**	(3,449)
Tax losses carried forward	**(1,609,404)**	(710,902)
	(1,610,153)	(714,351)

10 Tangible fixed assets

	Fixtures & fittings £	Equipment £	Total £
Cost			
At 1 October 2006	153,381	84,312	237,693
Additions	157,140	78,694	235,834
At 30 September 2007	310,521	163,006	473,527
Depreciation			
At 1 October 2006	100,501	36,927	137,428
Charge for the year	51,278	17,466	68,744
At 30 September 2007	151,779	54,393	206,172
Net book value			
At 30 September 2007	**158,742**	**108,613**	**267,355**
At 30 September 2006	52,880	47,385	100,265

11 Investments

	Shares in subsidiary undertakings £
Cost	
At 1 October 2006 and 30 September 2007	557
Net book value	
At 30 September 2007	557
At 30 September 2006	557

The company owns more than 20% of the issued share capital of the companies listed below,

Aggregate capital and reserves

	2007 £	2006 £
Myla Limited (dormant)	1	1
Myla Inc	(49,521)	(297,744)
Myla Investments Limited	37,559	(41,297)

Profit and (loss) for the year

	2007 £	2006 £
Myla Limited (dormant)	–	–
Myla Inc	(170,169)	(156,427)
Myla Investments Limited	170,169	(41,298)

Under the provision of section 248 of the Companies Act 1985 the company is exempt from preparing consolidated accounts and has not done so, therefore the accounts show information about the company as an individual entity

12 Stocks

	2007 £	2006 £
Finished goods	649,634	495,981

13 Debtors

	2007 £	2006 £
Trade debtors	308,368	132,143
Amounts owed by group undertakings	103,202	–
VAT recoverable	35,466	–
Other debtors	371,718	332,701
	818,754	464,844

14 Creditors amounts falling due within one year

	2007 £	2006 £
Overdrafts	**2,633**	62,175
Trade creditors	**1,177,073**	551,284
Amounts owed to group undertakings	**4,302,495**	1,690,727
Other taxation and social security	**51,773**	45,174
Other creditors	**392,363**	309,585
	5,926,337	2,658,945

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

15 Commitments under operating leases

At 30 September 2007 the company had annual commitments under non-cancellable operating leases as set out below

	Assets other than land & buildings	
	2007 £	2006 £
Operating leases which expire		
Within 2 to 5 years	**224,181**	67,103
Over 5 years	**146,775**	282,908
	370,956	350,011

16 Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard 8 from the requirement to disclose transactions and balances with group companies, whilst a member of the relevant group, on the groups that consolidated financial statements are prepared by the relevant group's parent company

17 Share capital

Authorised share capital

	2007 £	2006 £
120,000,000 Ordinary shares of £0 01 each	**1,200,000**	1,200,000

Allotted, called up and fully paid

	2007 No	2007 £	2006 No	2006 £
Ordinary shares of £0 01 each	**100,750,500**	**1,007,505**	100,750,500	1,007,505

18 Share premium account

	2007 £	2006 £
Balance brought forward	**1,594,282**	1,574,782
Premium on shares issued in the year	**–**	19,500
Balance carried forward	**1,594,282**	1,594,282

19 Profit and loss account

	2007 £	2006 £
Balance brought forward	**(4,158,962)**	(2,358,696)
Loss for the financial year	**(2,480,484)**	(1,800,266)
Balance carried forward	**(6,639,446)**	(4,158,962)

20 Reconciliation of movements in shareholders' funds

	2007 £	2006 £
Loss for the financial year	**(2,480,484)**	(1,800,266)
New equity share capital subscribed	**–**	909,279
Premium on new share capital subscribed	**–**	19,500
Net reduction to shareholders' deficit	**(2,480,484)**	(871,487)
Opening shareholders' deficit	**(1,557,175)**	(685,688)
Closing shareholders' deficit	**(4,037,659)**	(1,557,175)

21 Capital commitments

The company had no capital commitments at 30 September 2007 (2006 £nil)

22 Contingent liabilities

The company had no contingent liabilities at 30 September 2007 (2006 £nil)

23 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

24 Ultimate parent company

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