

**CONDICI LIMITED**

***DIRECTORS' REPORT AND  
FINANCIAL STATEMENTS***

***For the year ended 31 December 2004***

***Company Number: 1678961***



**CONDICI LIMITED**

**COMPANY INFORMATION**

<b><i>Directors</i></b>	<b><i>M A Fallman D P Levy</i></b>
<b><i>Secretary</i></b>	<b><i>M A Fallman</i></b>
<b><i>Company Number</i></b>	<b><i>1678961</i></b>
<b><i>Registered Office</i></b>	<b><i>25 Manchester Square London W1U 3PY</i></b>
<b><i>Auditors</i></b>	<b><i>Deloitte &amp; Touche LLP Reading</i></b>

**CONDICI LIMITED**

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**DIRECTORS' REPORT***For the year ended 31 December 2004*

The directors submit their report together with the audited financial statements of the company for the year ended 31 December 2004.

**FINANCIAL RESULTS AND DIVIDENDS**

	£
Retained profits brought forward	479,285
Profit on ordinary activities after taxation	279,219
Dividends	(250,000)
Retained profits carried forward	<u>508,504</u>

The directors propose a dividend of £250,000 (2003: £200,000).

**PRINCIPAL ACTIVITY**

The principal activities of the company remained that of wholesale suppliers, importers and exporters in the clothing and fashion trade.

**REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS**

The directors have continued to develop the business of the company in the light of prevailing trading conditions and the position as at 31 December 2004 is reflected in the audited financial statements for the year ended on that date. The company has made a positive start to 2005 and this is expected to continue into the foreseeable future.

**DIRECTORS**

The directors who served throughout the year except as noted were as follows:

D P Levy  
M A Fallman

None of the directors held shares in the company at any time during the current or preceding year.

Mr D P Levy was also director of the holding company, Rapallo Limited, and his interest in that company is disclosed in the Director's Report of the consolidated Group accounts (see note 15).

**DIRECTORS' REPORT**

*For the year ended 31 December 2004 (continued)*

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**DIRECTORS' RESPONSIBILITIES**

United Kingdom 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 as at the end of the financial year and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

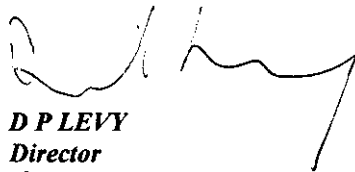
- \* select suitable accounting policies and then apply them consistently;
- \* make judgements and estimates that are reasonable and prudent;
- \* state whether applicable accounting standards have been followed; and
- \* prepare the financial statements on a going concern basis unless it is inappropriate 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 one time the financial position of the company and comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**AUDITORS**

A resolution proposing that Deloitte & Touche LLP be reappointed as auditors of the company will be submitted at the forthcoming Annual General Meeting.

This report was approved by the Board and signed on behalf of the Board by:



**D P LEVY**  
Director

27 October 2005

Registered office:  
25 Manchester Square, London W1U 3PY

We have audited the financial statements of Con dici Limited for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. 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 directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with the relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, 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 and other members of the group is not disclosed.

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

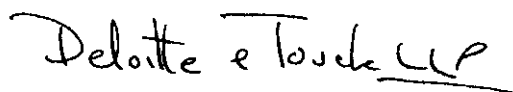
#### **Basis of audit opinion**

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 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 circumstances of the company, 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 of the state of affairs of the company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Reading

28 October 2005

**PROFIT AND LOSS ACCOUNT***For the year ended 31 December 2004**Notes*

		<i>2004</i> £	<i>2003</i> £
<i>Turnover</i>	<i>1,2</i>	<i>2,783,133</i>	<i>2,844,316</i>
<i>Cost of sales</i>		<i>(1,208,494)</i>	<i>(1,390,589)</i>
<i>Gross profit</i>		<i>1,574,639</i>	<i>1,453,727</i>
<i>Distribution costs</i>		<i>(539,100)</i>	<i>(494,404)</i>
<i>Administrative expenses</i>		<i>(677,851)</i>	<i>(681,159)</i>
<i>Other operating income</i>		<i>11,466</i>	<i>-</i>
<i>Operating profit</i>	<i>3</i>	<i>369,154</i>	<i>278,164</i>
<i>Interest receivable and similar income</i>		<i>29,514</i>	<i>29,341</i>
<i>Profit on ordinary activities before taxation</i>		<i>398,668</i>	<i>307,505</i>
<i>Tax on profit on ordinary activities</i>	<i>6</i>	<i>(119,449)</i>	<i>(92,842)</i>
<i>Profit on ordinary activities after taxation</i>		<i>279,219</i>	<i>214,663</i>
<i>Dividends</i>	<i>7</i>	<i>(250,000)</i>	<i>(200,000)</i>
<i>Profit for the year transferred to reserves</i>		<i>29,219</i>	<i>14,663</i>
<i>Retained profits brought forward</i>		<i>479,285</i>	<i>464,622</i>
<i>Retained profits carried forward</i>		<i>508,504</i>	<i>479,285</i>

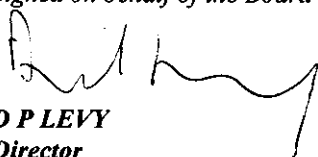
*All amounts relate to continuing activities.*

*There are no recognised gains or losses for the current and prior years other than as stated above and accordingly no statement of total recognised gains and losses has been presented.*

**BALANCE SHEET**  
 As at 31 December 2004

		<i>Notes</i>			
				2004	2003
				£	£
				£	£
<b>FIXED ASSETS</b>					
Tangible assets	8			8,314	13,705
<b>CURRENT ASSETS</b>					
Stock	9			168,043	173,510
Debtors	10			1,015,373	1,017,670
Cash at bank and in hand				409,338	279,389
				<u>1,592,754</u>	<u>1,470,569</u>
<b>CREDITORS: amounts falling due within one year</b>	11			<u>(1,087,562)</u>	<u>(999,987)</u>
Net current assets				505,192	470,582
Total assets less current liabilities				<u>513,506</u>	<u>484,287</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	12			5,002	5,002
Profit and loss account				508,504	479,285
Equity Shareholders' funds	13			<u>513,506</u>	<u>484,287</u>

The financial statements were approved by the Board of Directors on 27 October 2005.  
 Signed on behalf of the Board by:

  
**D P LEVY**  
 Director



**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2004**

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**1. ACCOUNTING POLICIES**

*A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year is set out below.*

**Basis of accounting**

*The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The company has taken advantage of the exemption available under FRS 8 not to disclose transactions with other group companies, 90% or more of whose voting rights are controlled within the group. The company has also taken advantage of the exemption provided by FRS 1 (revised) not to produce a cash flow statement since it is included in the financial statements of Condicti Holdings Limited which are publicly available..*

**Turnover**

*Turnover represents the amounts receivable for goods invoiced during the year excluding VAT, trade discounts and similar charges.*

**Tangible fixed assets and depreciation**

*Tangible fixed assets are stated at cost less depreciation and any provision for impairment and all repairs are written off as incurred. Tangible fixed assets are written down evenly over their expected useful lives as follows:*

<i>Fixtures and fittings</i>	<i>10 years</i>
<i>Computers and equipment</i>	<i>5 years</i>
<i>Leasehold improvements</i>	<i>2 years</i>

**Stocks**

*Stocks are valued at the lower of cost and net realisable value. The cost includes all direct expenditure incurred in bringing it to its present location and condition.*

**Taxation**

*UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted by the balance sheet date.*

*Deferred tax is provided in full on timing differences which 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 which are included in the 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.*

**Operating leases**

*Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term even if the payments are not made on such a basis.*

**Foreign currency**

*Transactions denominated in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities are translated into sterling at the exchange rate ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the profit and loss account.*

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2004 (continued)**

**2. SEGMENT INFORMATION**

*Business activity:*

*The company's turnover and profit before taxation arise from the design and distribution of ladies' occasionwear.*

*Geographical analysis of turnover by destination:*

	<b>2004</b>	<b>2003</b>
	£	£
United Kingdom	2,588,280	2,672,199
Other EC Countries	146,208	159,644
Other	48,645	12,473
	<u>2,783,133</u>	<u>2,844,316</u>

*All turnover originates in the United Kingdom.*

**3. OPERATING PROFIT**

*is stated after charging:*

	<b>2004</b>	<b>2003</b>
	£	£
Depreciation	5,391	9,804
Auditors' remuneration – audit services	6,000	6,000
Operating lease rentals - land and buildings	72,218	73,600
Loss on foreign exchange	18,428	32,932
Management charge to parent undertaking	200,000	200,000
	<u>292,037</u>	<u>324,336</u>

**4. STAFF COSTS**

*The monthly average number of employees including executive directors during the year was 19 (2003: 20), made up as follows:*

	<b>2004</b>	<b>2003</b>
	Number	Number
Administration and management	5	5
Distribution and sales	1	2
Production	13	13
	<u>19</u>	<u>20</u>

*Their aggregate remuneration comprised:*

	£	£
Salaries	346,000	418,035
Social security costs	8,638	8,224
	<u>354,638</u>	<u>426,259</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended 31 December 2004 (continued)*

**5. DIRECTORS' EMOLUMENTS**

	<b>2004</b>	<b>2003</b>
	£	£
<i>Emoluments</i>	106,391	119,510
	<u>106,391</u>	<u>119,510</u>

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<b>2004</b>	<b>2003</b>
	£	£
<i>Profit on ordinary activities before tax</i>	398,668	307,505
	<u>398,668</u>	<u>307,505</u>
<i>UK Corporation Tax at 30% thereon (2003: 30%)</i>	119,600	92,251
<i>Depreciation in (shortfall)/excess of capital allowances</i>	(172)	555
<i>Expenses not deductible for tax purposes</i>	21	36
	<u>119,449</u>	<u>92,842</u>
	<u>119,449</u>	<u>92,842</u>

**7. DIVIDENDS**

	<b>2004</b>	<b>2003</b>
	£	£
<i>Interim dividend - paid</i>	100,000	100,000
<i>Final dividend - paid</i>	150,000	100,000
	<u>250,000</u>	<u>200,000</u>
	<u>250,000</u>	<u>200,000</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2004 (continued)

**8. TANGIBLE FIXED ASSETS**

	<i>Fixtures, fittings and equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>
	£	£	£
<i>Cost</i>			
<i>At 1 January 2004</i>	107,048	11,488	118,536
<i>Additions</i>	-	-	-
<i>Disposals</i>	(6,617)	-	(6,617)
<i>At 31 December 2004</i>	<u>100,431</u>	<u>11,488</u>	<u>111,919</u>
<i>Depreciation</i>			
<i>At 1 January 2004</i>	93,343	11,488	104,831
<i>Charge for the year</i>	5,391	-	5,391
<i>Disposals</i>	(6,617)	-	(6,617)
<i>At 31 December 2004</i>	<u>92,117</u>	<u>11,488</u>	<u>103,605</u>
<i>Net book value</i>			
<i>At 31 December 2004</i>	<u>8,314</u>	-	<u>8,314</u>
<i>At 31 December 2003</i>	<u>13,705</u>	-	<u>13,705</u>

**9. STOCK**

	<b>2004</b>	<b>2003</b>
	£	£
<i>Raw materials and consumables</i>	44,794	9,985
<i>Finished goods and goods for resale</i>	123,249	163,525
	<u>168,043</u>	<u>173,510</u>

*There is no material difference between the balance sheet value of stocks and their replacement value.*

**10. DEBTORS**

	<b>2004</b>	<b>2003</b>
	£	£
<i>Trade debtors</i>	958,481	963,003
<i>Prepayments and accrued income</i>	56,892	54,667
	<u>1,015,373</u>	<u>1,017,670</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2004 (continued)**

**11. CREDITORS: amounts falling due within one year**

	2004 £	2003 £
Trade creditors	315,770	386,809
Amounts owed to group undertakings	150,000	100,000
Corporation tax payable	119,449	92,842
Other creditors	101,410	75,203
Accruals and deferred income	400,933	345,133
	<u>1,087,562</u>	<u>999,987</u>

**12. CALLED UP SHARE CAPITAL**

	2004 £	Authorised 2003 £	Allotted, issued and fully paid 2004 £	2003 £
Ordinary shares of £1 each	100,000	100,000	5,002	5,002

**13. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS**

<b>Equity Shareholders' funds</b>	<b>£</b>
At 1 January 2004	484,287
Profit after tax for the year	279,219
Dividends	(250,000)
At 31 December 2004	<u>513,506</u>

**14. LEASE OBLIGATIONS**

At 31 December 2004 the company was committed to make annual payments under non-cancellable operating leases in respect of land and buildings as follows:

	2004 £	2003 £
Operating leases which expire within one year	20,128	-
Operating leases which expire within two to five years	-	20,671
	<u>20,128</u>	<u>20,671</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended 31 December 2004 (continued)*

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**15. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY**

*The directors consider the ultimate parent company to be Rapallo Limited and the immediate parent company to be Condicti Holdings Limited. Both companies are incorporated in Great Britain and registered in England and Wales. Condicti Holdings Limited is the parent of the smallest group of which the company is a member and for which group accounts are prepared. Rapallo Limited is the parent of the largest group of which the company is a member and for which group accounts are prepared. Copies of the group accounts of Rapallo Limited are available from the Registrar of Companies, Crown Way, Maindy, Cardiff CF14 3UZ. The immediate parent company is Condicti Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.*

*The ultimate controlling party is Kenwood International Inc., a company incorporated in the Bahamas, for which accounts are not publicly available. The directors consider Mr. J. Lewis to be the ultimate controlling party, by virtue of his holding in Kenwood International Inc.*