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CONDICI LIMITED

Report and Financial Statements

31 December 2005

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CONDICI LIMITED

REPORT AND FINANCIAL STATEMENTS 2005

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REPORT AND FINANCIAL STATEMENTS 2005

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M A Fallman
D P Levy

SECRETARY

Mrs W Brooker

REGISTERED OFFICE

25 Manchester Square
London
W1U 3PY

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Reading, UK

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

FINANCIAL RESULTS AND DIVIDENDS

The trading results for the year ended 31 December 2005 are set out in the profit and loss account on page 5.

The directors have declared a total dividend for the year of £350,000 (2004: £250,000). However, following the adoption of FRS21 "Events after the balance sheet date" during the year, the amount charged to the profit and loss account in the year in respect of dividends is £250,000, representing £150,000 for the 2004 final dividend proposed after 31 December 2004 and £100,000 for the 2005 interim dividend payment (see note 7).

PRINCIPAL ACTIVITIES

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 in the light of prevailing trading conditions and the position at 31 December 2005 is reflected in the audited financial statements for the year ended on that date. The company has made a positive start to 2006 and this is expected to continue into the foreseeable future. The branch in Hong Kong continues to be the buying office for the company.

DIRECTORS

The directors who served throughout the period are as stated below:

D P Levy
M A Fallman

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

None of the directors has any beneficial interests in the shares of other group companies other than Mr D P Levy.

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

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 on 31 | 10 | 2006.

Signed by order of the Board of Directors.

D P Levy

Director

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The directors are responsible for preparing the Annual Report including the financial statements. The directors have chosen to prepare the financial statements for the company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and estimates that are reasonable and prudent;

(c) state whether applicable accounting standards have been followed; and

(d) 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CONDICI LIMITED

We have audited financial statements of Condici Limited for the year ended 31 December 2005, which comprise the profit and loss account, the balance sheet and the related notes 1 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 directors and auditors

The directors' responsibilities for preparing the Annual Report and 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 United Kingdom 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 in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report to you on the consistency of the directors' report 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 other transactions is not disclosed

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 circumstances of the company and the group, 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 company's affairs as at 31 December 2005 and of the company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Reading, UK

31. 10. 2006

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2005

	Note	2005 £	2004 £ As restated (note 16)
TURNOVER	1,2	2,885,166	2,783,133
Cost of sales		(1,188,671)	(1,208,494)
GROSS PROFIT		1,696,495	1,574,639
Distribution costs		(488,156)	(539,100)
Administrative expenses		(748,552)	(677,851)
Other operating income		2,180	11,466
OPERATING PROFIT	3	461,967	369,154
Interest receivable and similar income		31,311	29,514
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		493,278	398,668
Tax on profit on ordinary activities	6	(147,593)	(119,449)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		345,685	279,219
Dividend paid on equity shares	7	(250,000)	(200,000)
PROFIT FOR THE YEAR TRANSFERRED TO RESERVES	13	95,685	79,219

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.

A prior year adjustment was necessary following adoption of FRS 21 "Events after the balance sheet date" as set out in note 16.

BALANCE SHEET
31 December 2005

	Note	2005 £	2004 £ As restated (note 16)
FIXED ASSETS			
Tangible assets	8	6,922	8,314
CURRENT ASSETS			
Stocks	9	158,892	168,043
Debtors	10	997,825	1,015,373
Short term investments		190,000	-
Cash at bank and in hand		243,417	409,338
		1,590,134	1,592,754
CREDITORS: amounts falling due within one year	11	(837,865)	(937,562)
NET CURRENT ASSETS		752,269	655,192
TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS		759,191	663,506
CAPITAL AND RESERVES			
Called up share capital	12	5,002	5,002
Profit and loss account	13	754,189	658,504
EQUITY SHAREHOLDERS' FUNDS	13	759,191	663,506

These financial statements were approved by the Board of Directors on 31|10|2006.

Signed by order of the Board of Directors

D P Levy

Director

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2005

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They all have been applied consistently throughout the year and the preceding year with the exception of the change in accounting policy for events after the balance sheet date as set out in note 16 to adopt Financial Reporting Standard 21 "Events after the balance sheet date".

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 Condici Holdings Limited which are publicly available.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. All repairs are written off as incurred. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Fixtures and fittings	10 years
Computers and equipment	5 years
Leasehold improvements	2-5 years

Residual value is calculated on prices prevailing at the date of acquisition.

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

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively 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

Rentals under operating leases are charged 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, as 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
Year ended 31 December 2005

2. TURNOVER

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

Geographical analysis of turnover by destination:

	2005	2004
	£	£
United Kingdom	2,684,153	2,588,280
Other EC Countries	163,935	146,208
Other	37,078	48,645
	2,885,166	2,783,133

All turnover originates in the United Kingdom.

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2005	2004
	£	£
Depreciation	3,392	5,391
Auditors' remuneration - audit services	6,000	6,000
Operating lease rentals – land and buildings	72,551	72,218
(Gain)/loss on foreign exchange	(17,276)	18,428
Management charge to parent undertaking	200,000	200,000

4. STAFF COSTS

The monthly average number of employees including executive directors during the year was 19 (2004: 19), made up as follows:

	2005	2004
	No.	No.
Administration and management	5	5
Distribution and sales	1	1
Production	13	13
	19	19

The aggregate remuneration (including directors' emoluments) comprised:

	£	£
Salaries	489,900	391,960
Social security costs	11,371	9,069
	501,271	401,029

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2005

5. DIRECTORS' EMOLUMENTS

	2005	2004
	£	£
Emoluments	169,350	106,391

D P Levy is remunerated by other group companies in respect of his services provided to group companies. The portion of this that relates to this company is £nil (2004: £nil).

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

	2005	2004
	£	£
Current tax		
UK corporation tax	147,593	119,449

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2005	2004
	£	£
Profit on ordinary activities before tax	493,278	398,668
Tax on ordinary activities at standard UK corporation tax rate of 30% (2004: 30%)	147,983	119,600
Depreciation in shortfall of capital allowances	(474)	(172)
Expenses not deductible for tax purposes	84	21
Current tax charge for period	147,593	119,449

There are no deferred tax assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2005

7. DIVIDENDS

Amounts recognised as distributions to shareholders in the period:

	2005 £	2004 £ As restated (note 16)
Final dividend for the year ended 31 December 2003	-	100,000
Interim dividend for the year ended 31 December 2004	-	100,000
Final dividend for the year ended 31 December 2004	150,000	-
Interim dividend for the year ended 31 December 2005	100,000	-
	250,000	200,000

A dividend of £350,000 (2004: £250,000) was proposed after the balance sheet date but has not been recognised as a liability at the balance sheet date in accordance with the requirements of FRS 21 "Events after the balance sheet date" which was adopted during the year (see note 16).

8. TANGIBLE FIXED ASSETS

	Fixtures, fittings and equipment £	Leasehold improve-ments £	Total £
Cost			
At 1 January 2005	100,431	11,488	111,919
Additions	2,000	-	2,000
At 31 December 2005	102,431	11,488	113,919
Depreciation			
At 1 January 2005	92,117	11,488	103,605
Charge for the year	3,392	-	3,392
At 31 December 2005	95,509	11,488	106,997
Net book value			
At 31 December 2005	6,922	-	6,922
At 31 December 2004	8,314	-	8,314

9. STOCK

	2005 £	2004 £
Raw materials and consumables	46,516	44,794
Finished goods and goods for resale	112,376	123,249
	158,892	168,043

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2005

10. DEBTORS

	2005 £	2004 £
Trade debtors	757,190	958,481
Amounts owed by group undertakings	176,515	-
Prepayments and accrued income	64,120	56,892
	997,825	1,015,373

11. CREDITORS: amounts falling due within one year

	2005 £	2004 £ As restated (note 16)
Trade creditors	272,404	315,770
Corporation tax payable	147,593	119,449
Other creditors	72,278	101,410
Accruals and deferred income	345,590	400,933
	837,865	937,562

12. CALLED UP SHARE CAPITAL

	2005 £	2004 £
Authorised:		
Ordinary shares of £1 each	100,000	100,000
Allotted,called up and fully paid:		
Ordinary shares of £1 each	5,002	5,002

13. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENT ON RESERVES

	Issued Share Capital £	Profit and Loss Account £	Total 2005 £	Total 2004 £
Opening shareholders' funds as previously stated	5,002	508,504	513,506	484,287
Prior year adjustment (see note 16)	-	150,000	150,000	100,000
Opening shareholders' funds as restated	5,002	658,504	663,506	584,287
Retained profit for the year and as restated	-	95,685	95,685	79,219
At end of year and as restated	5,002	754,189	759,191	663,506

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2005

14. LEASE OBLIGATIONS

At 31 December 2005 the company was committed to make annual payments under non-cancellable operating leases in respect of land and buildings as follows:

	2005 £	2004 £
Operating leases which expire within one year	-	20,128
Operating leases which expire within two to five years	22,359	-
	22,359	20,128

Condici Limited entered into a new lease agreement for their new premises post year end for which the annual rental commitment is £65,363.

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 Condici Holdings Limited. Both companies are incorporated in Great Britain and registered in England and Wales. Condici 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 Condici Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

Kenwood International Inc owns the majority of the issued share capital of Rapallo Limited. The directors consider Mr. J. Lewis to be the ultimate controlling party, by virtue of him being the sole beneficiary of The Kenwood Trust which owns Kenwood International Inc., a company incorporated in the Bahamas and for which accounts are not publicly available.

16. CHANGE OF ACCOUNTING POLICY

The directors adopted FRS 21 "Events after the balance sheet date" during the year. The comparative figures in the financial statements have been restated to reflect the adoption of this policy. The effects of the change in policy are summarised below:

	2004 £
PROFIT & LOSS ACCOUNT	
Profit for the year as previously stated	29,219
Recognition of dividend declared after 31 December 2003	(100,000)
Non-recognition of dividend declared after 31 December 2004	150,000
Profit for the year as restated	79,219
BALANCE SHEET	
Net assets for the year as previously stated	513,506
Decrease in dividend liability	150,000
Net assets as restated	663,506