Registered number: 5859320

Lion/Silk Investments 2 Limited

Annual report and financial statements

For the year ended 27 March 2010

Lion/Silk Investments 2 Limited

Annual report and financial statements for the year ended 27 March 2010

Contents **Page**

Lion/Silk Investments 2 Limited

Company Information

Directors

R Darwent
F Nottin
M Minnick

Registered office

Unit 5
Swallowfield Way
Hayes
Middlesex
UB3 1DQ

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Atrium
Harefield Road
Uxbridge
UB8 1EX

Bankers

National Westminster Bank Plc
186 Brompton Road
London
SW3 1XJ

Lion/Silk Investments 2 Limited

Report of the directors for the year ended 27 March 2010

The directors present their annual report together with the audited consolidated financial statements of the group and company (Registered number 5859320) for the year ended 27 March 2010

Principal activities, business review and future developments

The principal activity of the group during the period was that of retailing lingerie and nightwear under the La Senza brand

As at 27 March 2010, the business operated through 172 stores, 54 European franchise stores and a flourishing internet site selling its own-branded product range of lingerie and nightwear Like most retailers, the business experienced a difficult year due to the impact of the recession, however through effective cost control and a rebalancing towards more full-price sales, profitability increased for the year to 27 March 2010

The strategy of focusing on core lingerie and nightwear ranges, and selling a higher proportion of stock at full price, is proving successful and the company is now trading profitably at the operating level and generating positive cash flows The business had a successful Christmas 2009 trading period highlighted by positive growth in like-for-like sales and margins

The new financial year to March 2011 has started well and the company is currently trading in line with its plan and is achieving positive like for like sales compared to last year With the success of the 2010 strategy being extended to the Group's swimwear range in the current financial year, this positive start is expected to continue throughout the year enhancing the Group's potential for growth

On 29 January 2010, Lion/Silk Funding Lux 2 Sarl, which is a subsidiary of funds advised and managed Lion Capital LLP, the majority shareholder of the ultimate holding company, Lion/Silk Investments Holdings Limited, acquired the senior term facility and mezzanine facility This transaction gave the funds advised and managed by Lion Capital LLP control of both the group's debt and equity

On 28 May 2010, Lion Silk Investments 2 Limited issued 26,381,557 ordinary shares to the company, which was in turn funded by the issue of 26,381,557 ordinary shares in the capital of the company to its sole shareholder at nominal value The proceeds were used to repay in full the mezzanine debt and the mezzanine facility was discharged

On 18 June 2010, Lion/Silk Funding Facility Limited which is a subsidiary of funds advised and managed by Lion Capital LLP acquired the revolving facility from National Westminster Bank plc At the same time, Lion/Silk Funding Lux 2 Sarl was appointed facility agent The senior term facility was amended to roll up all accrued interest, permit the Group to roll up interest at its discretion going forward, increase the interest rate and adjust the financial covenants to appropriate limits taking into account the projected financial performance of the Group The revolver facility was also amended to increase the interest rate

The result of the restructured financial arrangements is that the Group has no financial indebtedness owed to third parties and the reduction in debt by the repayment of the mezzanine facilities and accrued interest provides a strong financial platform for continued growth and development in 2011 and beyond

Report of the directors for the year ended 27 March 2010 (continued)

Principal activities, business review and future developments (continued)

Together with extended product focus, enhanced product ranges and increased emphasis on quality and marketing, the increased financial strength of the Group is anticipated to reinforce continued improvement in business performance for the future

A pro forma balance sheet which shows how the year-end assets and liabilities would have been reflected had the changes described above taken place before the year-end is shown on page 7

Results and dividends

The consolidated profit and loss account is set out on page 10 and shows the result for the year

The group loss for the year after taxation was £11m (2009 loss of £16m)

The directors do not recommend the payment of a dividend (2009 £Nil)

Summary

- Interest payable of £5m (2009 £6m)
- Loss before tax of £10m (2009 £19m)
- Group net liabilities as at 27 March 2010 of £28m (2009 £17m)

Principal risks and uncertainties

The main risk facing the business, as with most retailers, is that of further reduction in consumer spending due to the recession Risks are formally reviewed by the board and appropriate processes put in place to monitor and mitigate them

Key performance indicators (KPIs)

The board monitors performance using four key performance indicators of sales growth, operating profit growth, capital expenditure and store numbers Whilst sales growth exceeded expectations due to new stores, the group made an operating loss primarily due to the downturn in the economy The group's capital expenditure of £1m (2009 £11m) and the store portfolio were in line with expectations

Financial risk management

The directors review the liquidity and cash flow risk of the group carefully Cash flow is monitored by the directors on a regular basis and surplus funds are invested in readily accessible bank accounts to ensure that peak working capital requirements are easily managed

The company operates a policy to minimise risks associated with foreign exchange transactions The company manages such foreign exchange risks, related to its forward ordering requirements, through, when appropriate, the forward buying of US dollars

The board agrees and reviews the suitability and operational effectiveness of this policy on a regular basis

Financial risk management (continued)

Financial instruments such as trade creditors arise directly from the group's operations

Charitable and political contributions

During the year the group made no charitable or political contributions (2009 £20,000 to Breast Cancer Research and Refuge £2,500)

Directors

The directors of the company during the year, and up to the date of signing these financial statements, were

R Darwent
F Nottin
M Minnick

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned In the event of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees

Employee consultation

The group provides information to employees through a weekly newsletter, in which employees are encouraged to put forward their suggestions on matters affecting them The directors visit the stores on a regular basis and are available to discuss matters with staff during their visits The board believes that the success of its business is improved by employees being involved in matters concerning both the operation of the business and its employees through direct communication and co-operation The group has formalised its channels of communication in the form of a Communication and Consultation Policy, which has been agreed with staff in accordance with the Information and Consultation Directive, which came into force in March 2007

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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 group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group 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 accounting estimates that are reasonable and prudent,

Report of the directors for the year ended 27 March 2010 (continued)

Statement of directors' responsibilities in respect of the Annual Report and the financial statements (continued)

- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that

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

(b) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with Section 418 of the Companies Act 2006

Going concern basis

In determining the appropriate basis of preparation for the financial statements, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future

During the year, certain financial covenants of the senior and mezzanine facilities were breached

On 29 January 2010, Lion/Silk Funding Lux 2 Sarl, a subsidiary of funds managed and advised by Lion Capital LLP acquired all of the senior term facility and mezzanine facility and became the majority lender

On 28 May 2010, Lion/Silk Investments 1 Limited issued 26,381,557 ordinary shares to its sole shareholder at nominal value and the proceeds of such issue were used to subscribe for 26,381,557 ordinary shares in its subsidiary, Lion/Silk Investments 2 Limited, at nominal value The proceeds of such subscription were used by Lion/Silk Investments 2 Limited to prepay the full amount of the mezzanine debt and the mezzanine facility was discharged

On 18 June 2010, Lion/Silk Funding Facility Limited, a subsidiary of funds managed and advised by Lion Capital LLP acquired the senior revolving facility from National Westminster Bank plc At the same time, Lion/Silk Funding Lux 2 Sarl was appointed facility agent The senior term facility was amended to roll up all accrued interest, permit the Group to roll up interest at its discretion going forward, increase the interest rate and adjust the financial

Lion/Silk Investments 2 Limited

Report of the directors for the year ended 27 March 2010 (continued)

Going concern basis (continued)

covenants to appropriate limits taking into account the projected financial performance of the Group The revolver facility was also amended to increase the interest rate

On 18 June 2010, the financial covenants were reset in line with the Group's business plans

The financial forecasts prepared by the Directors, show that the company will be able to meet its financial operating requirements and financial covenants for the financial years ending 2 April 2011 and 1 April 2012

Taking into account the above, the Directors have a reasonable expectation that the Company will be able to meet its liabilities as they fall due for the foreseeable future Accordingly, the Directors consider it appropriate to prepare the financial statements on a going concern basis

Report of the directors for the year ended 27 March 2010 (continued)

Proforma consolidated balance sheet at 27 March 2010 taking into consideration the impact of the post balance sheet event

		2010 Adjusted £'000		2010 Audited £'000
Fixed assets				
Goodwill		62,492		62,492
Tangible assets		23,558		23,558
		86,050		86,050
Current assets				
Stock	15,078		15,078	
Debtors	8,847		8,847	
Cash at bank and in hand	11,512		11,512	
	35,437		35,437	
Creditors amounts falling due within one year	(28,247)		(145,529)	
Net current assets/(liabilities)		7,190		(110,092)
Total assets less current liabilities		93,240		(24,042)
Creditors amounts falling due after more than one year		(95,279)		(3,916)
Net liabilities		(2,039)		(27,958)
Capital and reserves				
Called up share capital		26,919		1,000
Profit and loss account		(28,958)		(28,958)
Total shareholders' deficit		(2,039)		(27,958)

The adjustments are

- Reclassify the senior loan and accrued interest of £31 7m to creditors amounts falling due after more than one year, and
- Increase called up share capital by £25 9m and repay the Mezzanine loan and accrued interest in creditors amounts falling due within one year
- Reclassify intercompany balances from creditors amounts falling due within one year to after one year

Report of the directors for the year ended 27 March 2010 (continued)

Independent auditors

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting

On behalf of the board

F Nottin
Director
5 July 2010

Independent auditors' report to the members of Lion/Silk Investments 2 Limited for the year ended 27 March 2010

We have audited the group and parent company financial statements (the "financial statements") of Lion/Silk Investments 2 Limited for the year ended 27 March 2010 which comprise the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement, and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 27 March 2010 and of the group's loss and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the members of Lion/Silk Investments 1 Limited for the year ended 27 March 2010 (continued)

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Stephen Wootten (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
5 July 2010

Lion/Silk Investments 2 Limited

Consolidated profit and loss account for the year ended 27 March 2010

	Notes	2010 £'000	2009 £'000
Turnover	2	**140,654**	152,640
Cost of sales		**(116,217)**	(132,115)
Gross profit		**24,437**	20,525
Administrative expenses		**(28,139)**	(32,954)
Exceptional expenses		**(1,051)**	(1,455)
Operating loss	3	**(4,753)**	(13,479)
Interest receivable and similar income	6	**10**	495
Interest payable and similar charges	7	**(5,192)**	(6,324)
Loss on ordinary activities before taxation		**(9,935)**	(19,308)
Taxation on loss on ordinary activities	8	**(996)**	2,996
Loss for the financial year	18	**(10,931)**	(16,312)

All amounts relate to continuing operations

The group has no recognised gains and losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented

There is no material difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents

Lion/Silk Investments 2 Limited

Consolidated balance sheet at 27 March 2010

	Note		2010 £'000		2009 £'000
Fixed assets					
Goodwill	11		**62,492**		68,023
Tangible assets	9		**23,558**		27,148
			86,050		95,171
Current assets					
Stock	12	**15,078**		26,577	
Debtors	13	**8,847**		7,382	
Cash at bank and in hand		**11,512**		8,923	
		35,437		42,882	
Creditors: amounts falling due within one year	14	**(145,529)**		(149,555)	
Net current liabilities			**(110,092)**		(106,673)
Total assets less current liabilities			**(24,042)**		(11,502)
Creditors amounts falling due after more than one year	15		**(3,916)**		(5,525)
Net liabilities			**(27,958)**		(17,027)
Capital and reserves					
Called up share capital	17		**1,000**		1,000
Profit and loss account	18		**(28,958)**		(18,027)
Total shareholders' deficit	19		**(27,958)**		(17,027)

The financial statements on pages 11 to 29 were approved by the board and authorised for issue on 5 July 2010

F Nottin
Director

Lion/Silk Investments 2 Limited

Company balance sheet at 27 March 2010

	Note		2010		2009
			£'000		£'000
Fixed assets					
Investments	10		**117,835**		117,835
Current assets					
Debtors	13	**11,455**		11,272	
Cash at bank and in hand		**4**		5	
			11,459		11,277
Creditors: amounts falling due within one year	14		**(147,519)**		(141,487)
Net current liabilities			**(136,060)**		(130,210)
Total assets less current liabilities			**(18,255)**		(12,375)
Net liabilities			**(18,225)**		(12,375)
Capital and reserves					
Called up share capital	17		**1,000**		1,000
Profit and loss account	18		**(19,225)**		(13,375)
Total shareholders' deficit	19		**(18,225)**		(12,375)

The financial statements on pages 11 to 29 were approved by the board and authorised for issue on 5 July 2010

F Nottin
Director

Lion/Silk Investments 2 Limited

Consolidated cash flow statement for the year ended 27 March 2010

	Note		2010 £'000		2009 £'000
Net cash inflow from operating activities	21		**4,510**		4,781
Returns on investments and servicing of finance					
Interest received		**10**		495	
Interest paid		**(705)**		(6,334)	
			(695)		(5,839)
Taxation					
UK corporation tax paid			**(159)**		-
Capital expenditure and financial investment					
Purchase of tangible fixed assets			**(1,067)**		(10,838)
Acquisitions					
Payment of deferred consideration			-		(1,092)
Financing					
Loan repayments			-		(2,500)
Drawdown of revolver facility			-		9,100
Net cash inflow/ (outflow)	**22**		**2,589**		(6,388)
Opening cash	22	**8,923**		15,314	
Effective foreign exchange		**-**		(3)	
Closing cash	22	**11,512**		8,923	
Increase/ (decrease) in cash	**22**		**2,589**		(6,388)

Notes to the financial statements for the year ended 27 March 2010

1 Accounting policies

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom The principal accounting policies, which have been applied consistently throughout the year, are set out below

The Group has adopted uniform accounting policies across all companies Any profits/(losses) on intra group transactions are eliminated on consolidation

Going Concern

In determining the appropriate basis of preparation for the financial statements, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future

During the year, certain financial covenants of the senior and mezzanine facilities were breached

On 29 January 2010, Lion/Silk Funding Lux 2 Sarl, a subsidiary of funds managed and advised by Lion Capital LLP acquired all of the senior term facility and mezzanine facility and became the majority lender

On 28 May 2010, Lion/Silk Investments 1 Limited issued 26,381,557 ordinary shares to its sole shareholder at nominal value and the proceeds of such issue were used to subscribe for 26,381,557 ordinary shares in its subsidiary, Lion/Silk Investments 2 Limited, at nominal value The proceeds of such subscription were used by Lion/Silk Investments 2 Limited to prepay the full amount of the mezzanine debt and the mezzanine facility was discharged

On 18 June 2010, Lion/Silk Funding Facility Limited, a subsidiary of funds managed and advised by Lion Capital LLP acquired the senior revolving facility from National Westminster Bank plc At the same time, Lion/Silk Funding Lux 2 Sarl was appointed facility agent The senior term facility was amended to roll up all accrued interest, permit the Group to roll up interest at its discretion going forward, increase the interest rate and adjust the financial covenants to appropriate limits taking into account the projected financial performance of the Group The revolver facility was also amended to increase the interest rate

On 18 June 2010, the financial covenants were reset in line with the Group's business plans

The financial forecasts prepared by the Directors, show that the company will be able to meet its financial operating requirements and financial covenants for the financial years ending 2 April 2011 and 1 April 2012

Taking into account the above, the Directors have a reasonable expectation that the Company will be able to meet its liabilities as they fall due for the foreseeable future Accordingly, the Directors consider it appropriate to prepare the financial statements on a going concern basis

Notes to the financial statements for the year ended 27 March 2010 (continued)

1 Accounting policies (continued)

Basis of consolidation

These voluntarily prepared group accounts consolidate the financial statements of the company, Lion/Silk Investments 2 Limited, Xunely Limited, La Senza Limited, La Senza Girl Limited, La Senza Europe Limited, Keppelington Limited, Contessa (Holdings) Limited and Contessa (Ladieswear) Limited, and are drawn up to 27 March 2010

The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed The trading results of companies acquired are accounted for on an acquisition basis

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business and is stated net of value added tax and other sales-related taxes Turnover on sales of goods are recognised when goods are sold to the customer Retail sales are usually in cash or by credit or debit card Turnover from gift vouchers and gift cards sold by the Group are recognised on the redemption of the gift voucher or gift card It is the Group's policy to sell its products to the end customer with a right of return Accumulated experience is used to estimate and provide for such returns at the time of sale

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use

The estimated lives of tangible fixed assets arc reassessed on a periodic basis

Depreciation is provided on all tangible fixed assets at rates calculated to write down their cost to their estimated residual value on a straight line basis over their estimated useful economic lives, which are considered to be

Leasehold improvements basis	-	shorter of length of lease or 10% on straight line
Fixtures, fittings and equipment	-	10% - 20% on straight line basis

The need for any fixed asset impairment write-down is assessed by comparing the carrying value of the asset against the higher of realisable value and value in use

Stock

Stock is stated at the lower of cost and net realisable value Cost is based on the cost of purchase on a first in, first out basis Net realisable value is based on estimated selling price less additional costs

Provision is made for obsolete, slow-moving or defective items, where appropriate

Notes to the financial statements for the year ended 27 March 2010 (continued)

1 Accounting policies (continued)

Investments

In the company's balance sheet, investments in subsidiary undertakings are carried at cost less impairment The carrying value of investments in subsidiary undertakings is reviewed periodically by the Financial Controller and adjustments made for impairment as necessary

Goodwill

Goodwill is calculated as the difference between purchase consideration and the fair value of the assets acquired Goodwill arising on businesses acquired has been capitalised and amortised over the expected useful life of the businesses acquired Goodwill is amortised over 15 years, subject to an impairment review

Foreign currency

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet or at the agreed contractual rate Transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction All differences on exchange are taken to the profit and loss account

Leased assets

Annual rentals payable under operating leases are charged to the profit and loss account on a straight-line basis

Reverse premiums and similar incentives to enter into operating lease agreements are released to the profit and loss account over the period to the date on which the rent is first expected to be adjusted to the prevailing market rate

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on an undiscounted basis

Pension costs

Contributions to the group's defined contribution pension scheme are charged to the profit and loss account in the period in which they become payable The assets of the scheme are held separately from those of the group in an independently administered fund

Notes to the financial statements for the year ended 27 March 2010 (continued)

1 Accounting policies (continued)

Liquid resources

For the purposes of the cashflow statement, liquid resources are defined as current asset investments and short term deposits

2 Turnover

	Group 2010 £'000	Group 2009 £'000
Analysed by geographical market		
United Kingdom	**129,905**	139,669
Rest of Europe	**10,749**	12,971
	140,654	152,640

Turnover is attributable to the principal activity of the group

3 Operating loss

		Group 2010 £'000	Group 2009 £'000
Operating loss has been arrived at after charging/(crediting)			
Amortisation of goodwill		**5,531**	5,531
Exceptional items			
- Redundancy		**109**	-
- Restructuring		**942**	1,455
Depreciation of tangible fixed assets		**4,159**	4,019
Operating lease charges	- plant and machinery	**509**	422
Operating lease charges	- property leases	**22,104**	22,927
Auditors' remuneration	- audit	**100**	117
	- taxation services	**77**	75
Foreign exchange gains		**(1,304)**	(213)
Loss on disposal of fixed assets		**498**	383

Notes to the financial statements for the year ended 27 March 2010 (continued)

4 Employees

	Group 2010 £'000	Group 2009 £'000
Staff costs (including executive directors) consist of		
Wages and salaries	**29,146**	31,321
Social security costs	**2,009**	2,640
Other pension costs	**142**	269
	31,297	34,230

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

	Group 2010 Number	Group 2009 Number
Shop staff	**2,623**	2,556
Other staff	**250**	259
	2,873	2,815

Other staff includes all staff that do not work exclusively in a store

5 Directors' remuneration

	Group 2010 £'000	Group 2009 £'000
Aggregate emoluments	-	526
Pension contributions	-	23
Compensation for loss of office	-	195
	-	744
Highest paid director		
Aggregate emoluments	-	307
Pension contributions	-	22
Compensation for loss of office	-	195

The Directors' of the company were remunerated by the ultimate parent company Lion/Silk Investments Holdings Limited

There were no contributions to the group's defined contribution pension scheme in respect of the directors (2009 1)

Emoluments of the highest paid director amounted to £nil (2009 £306,910)
Pension contributions of the highest paid director amounted to £nil (2009 £22,917)

Notes to the financial statements for the year ended 27 March 2010 (continued)

6 Interest receivable and similar income

	Group 2010 £'000	Group 2009 £'000
Bank interest	**10**	495

7 Interest payable and similar charges

	Group 2010 £'000	Group 2009 £'000
Bank interest	**26**	-
Loan interest	**5,166**	6,324
	5,192	6,324

Notes to the financial statements for the year ended 27 March 2010 (continued)

8 Taxation on loss on ordinary activities

	Group 2010 £'000	Group 2009 £'000
UK corporation tax		
Current tax on losses for the year	-	-
Adjustment to tax charge in respect of previous periods	**169**	(420)
Total current tax	**169**	(420)
Deferred taxation		
Origination and reversal of timing differences	**(426)**	(1,674)
Prior year adjustment	**1,253**	(902)
Total deferred tax charge / (credit) (note 16)	**827**	(2,576)
Taxation on loss on ordinary activities	**996**	(2,996)

The tax assessed for the year is higher (2009 higher) than the standard rate of corporation tax in the UK The differences are explained below

	2010 £'000	2009 £'000
Loss on ordinary activities before taxation	**(9,935)**	(29,046)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 28% (2009 28%)	**(2,782)**	(8,133)
Effects of		
Expenses not deductible for tax purposes	**1,787**	2,081
Accelerated capital allowances	**1,088**	690
Group relief surrendered for nil consideration	**3,077**	-
Losses not recognised for deferred tax	**583**	4,378
Losses recognised for deferred tax	**76**	920
Short term timing differences	**(20)**	195
Permanent differences	**(3,084)**	-
Prior year adjustment to current tax	**169**	(420)
Utilisation of losses	**(725)**	(131)
Current tax charge for the period	**169**	(420)

In June 2010, the UK government announced changes to the UK tax system These changes are not regarded as substantively enacted at the balance sheet date and are therefore not included in these financial statements The Finance Bill 2010 will include legislation to reduce the main rate of corporation tax from 28 per cent to 27 per cent from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1 per cent per annum to 24 per cent by 1 April 2014

Notes to the financial statements for the year ended 27 March 2010 (continued)

9 Tangible assets

Group	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost			
At 28 March 2009	4,543	29,251	33,794
Additions	480	587	1,067
Disposals	(305)	(1,621)	(1,926)
At 27 March 2010	**4,718**	**28,217**	**32,935**
Accumulated depreciation			
At 28 March 2009	822	5,824	6,646
Provided for the year	626	3,533	4,159
Disposals	(84)	(1,344)	(1,428)
At 27 March 2010	**1,364**	**8,013**	**9,377**
Net book value			
At 27 March 2010	**3,354**	**20,204**	**23,558**
At 28 March 2009	3,721	23,427	27,148

The company has no fixed assets

10 Investments

	Company £'000
Cost	
At 28 March 2009 and 27 March 2010	**117,835**
Net book value	
At 28 March 2009	**117,835**
At 27 March 2010	**117,835**

The directors believe that the carrying value of the investments is supported by their underlying net assets

Investments in group undertakings are stated at cost As permitted by section 615 of the Companies Act 2006, where the relief afforded under section 612 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings

Notes to the financial statements for the year ended 27 March 2010 (continued)

10 Investments (continued)

The company has the following subsidiaries

Name of subsidiary undertaking	Country of incorporation	Nature of business
Xunely Limited	England	Holding company
Keppelington Limited	England	Property company
La Senza Limited *	England	Retailing
La Senza Europe Limited *	England	Retailing
La Senza Girl Limited *	England	Dormant
Contessa Holdings Limited *	England	Holding company
Contessa (Ladieswear) Limited *	England	Retailing

* owned indirectly

11 Goodwill

	£'000
Cost	
At 28 March 2009 and 27 March 2010	**82,969**
Accumulated amortisation	
At 28 March 2009	14,946
Provided during the year	5,531
At 27 March 2010	**20,477**
Net book value	
At 28 March 2009	68,023
At 27 March 2010	**62,492**

Notes to the financial statements for the year ended 27 March 2010 (continued)

12 Stock

	Group 2010 £'000	Group 2009 £'000
Finished goods and goods for resale	**15,078**	26,577

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

The company has no stock

13 Debtors

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Amount owed by group undertakings	-	-	**11,453**	11,272
Corporation tax	-	328	-	-
Other taxation and social security	-	8	-	-
Deferred tax (note 16)	**1,718**	2,545	-	-
Other debtors	**1,063**	731	**2**	-
Prepayments	**6,066**	3,770	-	-
	8,847	7,382	**11,455**	11,272

Amounts owed by group undertakings are unsecured, interest-free and repayable on demand

14 Creditors: amounts falling due within one year

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Bank loans and overdrafts	**9,100**	59,977	**9,100**	50,877
Shareholders' loan	**52,555**	-	**52,555**	-
Trade creditors	**8,261**	15,267	**70**	70
Amounts owed to group undertakings	**59,647**	60,124	**81,932**	89,961
Corporation tax	**26**	-	-	-
Other taxation and social security	**2,811**	2,935	-	-
Other creditors	**2,973**	3,487	-	-
Accruals and deferred income	**10,156**	7,765	**3,862**	579
	145,529	149,555	**147,519**	141,487

Bank Loans and Overdrafts at 27 March 2010 consists of £40 8m senior facilities including a £31 7m term facility and a £9 1m revolving facility and a £26m mezzanine facility (2009 £61 5m included a] senior term loan of £29 5m, senior revolving facility of £9 1m and mezzanine loans of £22 9m)

Notes to the financial statements for the year ended 27 March 2010 (continued)

14 Creditors: amounts falling due within one year (continued)

The senior and mezzanine facilities are secured by a fixed and floating charge over the assets of Lion/Silk Investments 2 Limited and its subsidiaries

On 29 January 2010, Lion/Silk Funding Lux 2 Sarl, a subsidiary of funds managed and advised by Lion Capital LLP, acquired all of the senior term facility and the mezzanine facility and became the majority lender

The loans outstanding under the senior term facility and the mezzanine facility do not have any scheduled capital repayments for the foreseeable future, although there are circumstances in which Lion/Silk Investments 2 Limited and its subsidiaries may be required to apply excess cash flow or significant disposal proceeds to partial repayment of these loans

The facilities bear interest based on LIBOR plus fixed margins payable at regular intervals In addition, interest at the rate of 6% per annum is rolled up into the principle sum of mezzanine debt During the year ended 27 March 2010, interest of £1,380,912 (2009 £1,209,000) was capitalised on the mezzanine debt

On 28 May 2010, Lion/Silk Investments 1 Limited issued 26,381,557 ordinary shares to its sole shareholder at nominal value and the proceeds of such issue were used to subscribe for 26,381,557 ordinary shares in its subsidiary, Lion/Silk Investments 2 Limited, at nominal value The proceeds of such subscription were used by Lion/Silk Investments 2 Limited to prepay the full amount of the mezzanine debt and the mezzanine facility was discharged

Other amounts owed to group undertakings are unsecured, interest free and repayable on demand

15 Creditors: amounts falling due after more than one year

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Other creditors	**2,113**	-	-	-
Accruals and deferred income	**1,803**	5,525	-	-
	3,916	5,525	-	-

The maturity profile of the carrying amount of the group and company's borrowings was as follows

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Less than a year	**61,655**	59,977	**61,655**	50,877
	61,655	59,977	**61,655**	50,877

Notes to the financial statements for the year ended 27 March 2010 (continued)

16 Deferred tax asset

	Group		Company	
Deferred tax (asset)/ liability	**2010**	**2009**	**2010**	**2009**
Provided	**£000**	**£000**	**£000**	**£000**
Opening deferred tax balance 28 March 2009	**(2,545)**	31	-	-
Charged to profit and loss account	**827**	(2,576)	-	-
Total deferred tax	**(1,718)**	(2,545)	-	-

Deferred Tax is analysed as follows

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£000	**£000**	**£000**	**£000**
Accelerated capital allowances	**1,192**	1,009	-	-
Short term timing differences	**5**	195	-	-
Losses	**521**	1,341	-	-
	1,718	2,545	-	-
Unprovided				
Tax losses	**(2,778)**	(11,081)	**(1,946)**	(8,791)
Total unprovided deferred tax	**(2,778)**	(11,081)	**(1,946)**	(8,791)

The directors do not consider there is sufficient certainty over the likelihood of receiving income in the investment companies in order to recognise a deferred tax asset in respect of the non-trading losses in those companies The deferred tax asset in relation to trading losses has been recognised on the grounds that it is expected that sufficient taxable trading profits will arise in the future to enable these losses to be used

17 Called up share capital

	2010	**2009**
	£'000	**£'000**
Authorised		
1,000,000 deferred ordinary shares of £1 each	**1,000**	1,000
Allotted and fully paid		
1,000,000 deferred ordinary shares of £1 each	**1,000**	1,000

18 Reserves

	Group Profit and account £'000	**Company Profit and account £'000**
At 28 March 2009	(18,027)	(13,375)
Loss for the financial year	(10,931)	(5,850)
At 27 March 2010	**(28,958)**	**(19,225)**

Notes to the financial statements for the year ended 27 March 2010 (continued)

19 Reconciliation of movements in shareholders' deficit

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Loss for the financial year	**(10,931)**	(16,312)	**(5,850)**	(7,166)
Opening shareholders' deficit	**(17,027)**	(715)	**(12,375)**	(5,209)
Closing shareholders' deficit	**(27,958)**	(17,027)	**(18,225)**	(12,375)

20 Commitments

Commitments under operating leases

The group had annual commitments under non-cancellable operating leases as set out below

	Land and buildings 2010 £'000	Other 2010 £'000	Land and buildings 2009 £'000	Other 2009 £'000
Operating leases which expire				
Within one year	**1,031**	**47**	2,703	81
In one to five years	**6,006**	**191**	4,336	106
After five years	**15,695**	**-**	18,682	7
	22,732	**238**	25,721	194

21 Reconciliation of operating (loss)/profit to net cash inflow from operating activities

Group	2010 £'000	2009 £'000
Operating loss	**(4,753)**	(13,479)
Depreciation of fixed assets	**4,159**	4,019
Amortisation of goodwill	**5,531**	5,564
Decrease/(increase) in stocks	**11,499**	(8,167)
(Increase) /decrease in debtors	**(2,560)**	2,756
(Increase) /decrease in creditors	**(9,864)**	13,705
Loss on disposal of fixed assets	**498**	383
Net cash inflow	**4,510**	4,781

Notes to the financial statements for the year ended 27 March 2010 (continued)

22 Analysis of changes in net debt

	At 28 March 2009	Cash flow	Non-cash changes	At 27 March 2010
	£'000	£'000	£'000	£'000
Cash in hand and at bank	8,923	2,589	-	**11,512**
Debt due within one year	(59,977)	-	(1,678)	**(61,655)**
	(51,054)	2,589	(1,678)	**(50,143)**

Non cash changes relate to the capitalized interest charges

On 28 January 2010, acquisition of all of the Senior and Mezzanine debt facilities was made by the majority shareholder of the Group (funds advised and managed by Lion Capital LLP) to become the majority lender

Group reconciliation of net cash flow to movement in net debt

	2010	2009
	£'000	£'000
(Decrease) / Increase in the cash in the year	**2,589**	(6,388)
Effect of foreign exchange	-	3
Non cash changes in net debt in the year	**(1,678)**	(6,413)
Opening net debt	**(51,054)**	(38,256)
Closing net debt	**(50,143)**	(51,054)

23 Company Profit and Loss Account

The directors have taken advantage of the exemption available under section 230 of the Companies Act 2006 and not presented a profit and loss account for the company alone The company's loss for the year ended 27 March 2010 was £5,849,798 (2009 £7,166,158)

24 Related party transactions

Related party transactions and balances

As at 27 March 2010, the Lion/ Silk Investments 2 Group owed Lion/ Silk Investments 1 Limited, the immediate parent company an amount of £59,646,839

The Group has accrued a management fee of £122,816 (2009 £276,164) payable to a related party, Lion Capital LLP

Group guarantees

Lion/ Silk Investments 1 Limited and the direct and indirect subsidiaries of the company have provided guarantees and securities, including floating charges over their assets, in favour of the company's lenders

Notes to the financial statements for the year ended 27 March 2010 (continued)

25 Ultimate controlling party

The group's ultimate holding company is Lion/Silk Funding (Cayman) Limited, registered in the Cayman Islands, which owns 100% of the group's UK holding company, Lion/Silk Investments 2 Limited

The ultimate parent undertaking and controlling party is Lion/Silk Funding (Cayman) Limited, (4th Floor, Cayman Financial Centre, 36A, Dr, Roy's Drive, PO Box 2510, Grand Cayman, KY1-1104) a company incorporated in the Cayman Islands which is owned by investment funds managed by Lion Capital

Lion/ Silk Investments 1 Limited is the parent undertaking of the smallest and largest group to consolidate these financial statements The consolidated financial statements of Lion/ Silk Investments 1 Limited available from Unit 5, Swallowfield Way, Hayes, Middlesex UB3 1DQ

26 Post balance sheet events

On 28 May 2010, Lion/Silk Investments 1 Limited issued 26,381,557 ordinary shares to its sole shareholder at nominal value and the proceeds of such issue were used to subscribe for 26,381,557 ordinary shares in its subsidiary, Lion/Silk Investments 2 Limited, at nominal value The proceeds of such subscription were used by Lion/Silk Investments 2 Limited to prepay the full amount of the mezzanine debt and the mezzanine facility was discharged

As part of the restructuring, the interest on the senior term loan was increased to LIBOR plus 9 0%, however, the interest accrued can be rolled up into the capital of the loan and it is proposed to do as such until such time as the Group has surplus funds after investment in new stores

In addition, on 18 June 2010, Lion Silk Funding Facility Limited, a subsidiary of Lion Capital LLP acquired the revolving loan facility from RBS As a result, the Group currently has no external funding providers