

# THEO FENNEL



Theo Fennell PLC  
ANNUAL REPORT AND ACCOUNTS 2008  
01955534

# THEO FENNELL PLC

## Contents

	Page
Directors and Advisors	2
Chairman's Statement	3-4
Directors' Report	5-9
Report of the Independent Auditor	10-11
Profit and Loss Account	12
Balance Sheet	13
Cash Flow Statement	14
Accounting Policies	15-17
Notes to the Financial Statements	18-30

# THEO FENNELL PLC

## Directors and Advisors

<b>Directors</b>	F R Northcott FCA (Chairman) A T Fennell (resigned 22 February 2008) P Harper (Chief Executive Officer) G R Saunders ACA (Finance Director) J L Carmody (Commercial Director) C E P Carter (resigned 31 July 2008) Viscount Cowdray (Non-Executive) R A Pedder (appointed 31 July 2008)
<b>Company Secretary</b>	G R Saunders ACA
<b>Registered Office</b>	2b Pond Place London SW3 6TF
<b>Registered Number</b>	01955534
<b>Nominated Adviser</b>	Seymour Pierce Limited 20 Old Bailey London EC4M 7EN
<b>Broker</b>	Seymour Pierce Limited 20 Old Bailey London EC4M 7EN
<b>Registered Auditor</b>	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP
<b>Solicitors</b>	Bird & Bird 15 Fetter Lane London EC4A 1JP
<b>Bankers</b>	Clydesdale Bank PLC London City Financial Solutions Centre 88 Wood Street London EC2V 7QQ
<b>Registrars</b>	Northern Registrars Limited Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA

# THEO FENNELL PLC

## Chairman's Statement

### CHAIRMAN'S STATEMENT

#### Overview

Last year was yet another record year for Theo Fennell with sales growth increasing for the third year running. Turnover increased 10.6% to £28.06million (2007: £25.4million) with profit before tax and pre exceptional items up 16% to £1.9million (2007: £1.63 million).

A very strong performance in the year has enabled the business to add nearly £1million of cash to its balance sheet, and has bank facilities of £5m to fund expansion plans, and invest back into the people and infrastructure of the business.

There was an exceptional charge of £500k which was in relation to the departure of the previous Managing Director and the appointment of Pamela Harper as Chief Executive.

#### Operational

The Company continues to expand both domestically and internationally. This past year Theo Fennell has opened in the Selfridges' Room of Wonder alongside Cartier, Tiffany and Bulgari and is due to open a concession at Brown Thomas in Dublin when the premier Irish department store launches its Fine Jewellery and Watch Hall in time for the Christmas market. The Company also won the contracts to operate the luxury watch and fine jewellery counters in the same room. This represents a very important development for the business.

Theo Fennell is continuing its expansion programme, which will include a standalone presence in Bond Street, which is important in developing the international profile of the brand.

Overseas, the brand continues to be rolled out with an expanded presence in Harvey Nichols, Dubai, and in Kazakhstan and Bahrain. The Company is in advanced discussions with its partners in the Middle East, and Moscow to develop its distribution. The Company is also in initial talks to enter the Japanese market, and to extend its presence in Greater China.

#### Product

The Company has acquired the rights to their successful fragrance 'SCENT' and announces a new UK distribution and product development contract with Fragrance Factory. The Company is preparing for the launch of new 'SCENT' products later this year and two new fragrance launches for 2009. Discussions are also underway with local distributors in Russia and in the Middle East.

The Quiver collection which was launched in September 2007 has been very successful in all markets and new collections will be launched in the second half of this year.

A new Theo Fennell watch is due to be launched in April 2009.

# THEO FENNELL PLC

## Chairman's Statement (continued)

### Corporate Development

This year saw the appointment of Pamela Harper as our new CEO. Pamela is one of the industry's most experienced luxury goods operators and joined us with 28 years of experience spanning Burberry, Escada, Hermes, Alfred Dunhill and Jaeger. She is the ideal person to lead Theo Fennell PLC to the next stage of growth and this programme is already well underway.

The brand is investing in experienced luxury goods operators to assist in the expansion of the brand, and is pleased to announce the appointment of Jill Butterworth to the newly created role of Retail Director, in which she will be responsible for the effective operation of the UK and International stores and concessions.

Jill has 25 years of retail experience and joins the business from Burberry Company plc. Prior to joining Burberry, Jill held senior posts at Scotch House, La Senza and House of Fraser, where she has gained a wealth of experience across all aspects of the retail sector.

### Theo Fennell

Theo Fennell has signed a new contract as a design consultant to the Company whereby he will design collections and Haute Couture pieces for the business. He will continue to be an ambassador for the brand. The Company retains the rights to the Theo Fennell name.

### Outlook

2007/8 was yet another record year for Theo Fennell PLC.

Current trading is tough, yet we ended the financial year in a very strong cash position, which is matched by a strong management team under our new Chief Executive, Pamela Harper.

This strong cash and management position allows us to continue our expansion strategy both at home and overseas. The Company has a very exciting and substantial investment programme planned in the current financial year across its retail infrastructure, international expansion, product development and strengthened operational team. This programme will give the Company enhanced UK and international distribution enabling it to realise its full potential. Whilst this will have an impact on profits in the current financial year it will position the Company for accelerated long term profit growth.

**Richard Northcott**

**Chairman**

**10 September 2008**

# THEO FENNELL PLC

## Directors' Report

The directors present their annual report, together with the audited financial statements, for the year ended 31 March 2008.

### Business activities

Theo Fennell is a unique British luxury brand enjoying strong market position in the UK, offering a range of very high quality jewellery, watches and silver objets and gifts.

The Company's principal activity continues to be the design, manufacture and retailing of fine jewellery.

A review of the activities and development of the Company during the year and the prospects of the Company are set out in the Chairman's statement on pages 3 and 4.

The strategy and focus of the Company continues to be the establishment of Theo Fennell as an International luxury goods brand and Company.

### Risks and uncertainties

The directors identify and evaluate the material risks and uncertainties facing the business. The following are the principal risks that could materially affect the Company's business. These risks are not the only ones that the Company faces and some that the Company does not currently believe to be material could later turn out to be material. These risks could materially affect the Company's business, its operating profits earnings, net assets liquidity and capital resources.

- o loss of key personnel;
- o exposure to significant increase in rent on leasehold property;
- o the adverse effect of poor economic conditions on the UK and London retail markets;
- o the adverse effect of uncontrollable external events/conditions on the London retail market for example adverse weather conditions and the terrorist bombings of July 2005;
- o failure or interruptions of information technology systems;
- o disruption to or discontinuation of supplies from third party manufacturers;
- o a change in our relationship with the department store groups where we operate concessions;
- o a significant change in the price of key commodities and related exchange rates;
- o changes in legislation including the basis of taxation which affect the trading relationship with our customers.

# THEO FENNELL PLC

## Directors' Report (continued)

### Key performance indicators (KPIs)

The directors monitor a number of KPIs to enable them to manage the performance of the business and for each store/concession. This includes a monthly cycle of management reporting combined with daily and weekly sales and gross margin reports. Examples of the most important KPIs are:

- like for like retail sales have increased by 13%;
- wholesale and franchise sales have decreased by 15%;
- gross margins have decreased by 0.3%;
- average sale per store has increased to £2,519.

### Dividends

The directors do not propose a dividend for the year under review (2007: £Nil). The retained profit for the year of £969,620 (2007: profit of £1,554,957) has been transferred to reserves.

### Share capital

Details of the Company's share capital, together with the outstanding options granted by the Company over its shares, are set out in note 14 to the financial statements.

The following table shows those shareholders who, at 10 September 2008, had notified the Company that they held 3% or more of the current issued share capital:

	Number	Percentage
Francis Richard Northcott	4,672,367	25.1
Centric Investments Limited	3,411,166	18.3
Alister Theodore Fennell	2,886,760	15.6
JO Hambro Investment Management	1,224,192	6.6
Henderson Global Investors Limited	1,035,000	5.6
UBS Global Asset Management	1,000,000	5.4

### Directors and their interests

The directors in office, together with details of their shareholdings, are listed below. All directors served throughout the year except where stated:

	Ordinary Shares of 5p		Options over Ordinary Shares of 5p	
	31 March 2008	31 March 2007	31 March 2008	31 March 2007
F R Northcott	4,672,367	4,672,367	365,000 (a)	365,000 (a)
P Harper (appointed 6 December 2007)	59,500	–	500,000 (b)	– (b)
B Snoad (resigned 6 December 2007)	–	–	–	500,000
G R Saunders	–	–	200,000 (c)	200,000 (c)
J L Carmody	–	–	140,000 (d)	140,000 (d)
C E P Carter <sup>(e)</sup>	546,192	546,192	5,000 (f)	5,000 (f)
Viscount Cowdray <sup>(g)</sup>	3,411,166	3,411,166	30,000 (f)	30,000 (f)

# THEO FENNELL PLC

## Directors' Report (continued)

- (a) 340,000 granted on 25 March 2002 under an Enterprise Management Incentive Share Option Scheme. 40,000 options are exercisable at £0.25 per share and 300,000 options are exercisable at £0.50 per share up to ten years from the date of grant. 25,000 options granted on 31 July 2003 exercisable at £0.30 per share up to ten years from the date of grant.
- (b) Granted on 7 December 2007. Of these 137,930 are exercisable under the Enterprise Management Incentive scheme at £0.725 per share and 362,070 are exercisable under the terms of the Company's Unapproved Share Option Scheme at £0.725 per share. The options vest in equal instalments over the next 3 years and can be exercised up to 10 years from the date of grant.
- (c) 50,000 granted on 10 September 2002 and 150,000 on 9 December 2004 under an Enterprise Management Incentive Share Option Scheme. The options are exercisable at £0.35 per share between three and ten years from the date of grant.
- (d) 150,000 granted on 9 December 2004 under an Enterprise Management Incentive Share Option Scheme. The options are exercisable at £0.35 per share between three and ten years from the date of grant.
- (e) The shares registered in the name of Mr Carter are held as nominee for a family trust under which Mr Carter is a beneficiary.
- (f) Granted on 25 March 2002 and exercisable at any time at a price of £0.25 per share under the terms of the Company's Unapproved Share Option Scheme.
- (g) These shares are those in which Viscount Cowdray has a beneficial interest and are registered in the name of Centric Investments Limited.

The mid-market price of the Company's shares was 64.5p at 31 March 2008. During the year the mid-market price fluctuated between 60.5p and 151.0p.

There has been no change in directors' share interests since the year end.

F R Northcott has a service contract with a notice period of twelve months.

### Directors' responsibilities for the financial statements

The directors are responsible 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).

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

# THEO FENNELL PLC

## Directors' Report (continued)

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:

- o there is no relevant audit information of which the Company's auditors are unaware; and
- o 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 auditors are aware of that information.

The directors' are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Payment policy and practice**

In the absence of dispute, the Company aims to pay suppliers as expediently as possible in accordance with any terms that have been agreed with them. Trade creditors at the year-end amounted to 35 days (2007: 36 days) of average supplies for the year.

### **Charitable donations**

Donations to charitable organisations amounted to £26,867 (2007: £6,714).

### **Going Concern**

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

### **Financial Risk Management**

The Financial Risk Management objectives and policies of the Company, including the exposure to interest rate risk, liquidity risk, currency risk and credit risk are set out in note 24 to the financial statements.

# THEO FENNELL PLC

## Directors' Report (continued)

### **Audit Committee**

The members of the Committee are Richard Northcott and Charles Carter. The Audit Committee is responsible for ensuring that the financial performance of the Company is properly reported and monitored and for meeting the auditors and receiving their reports relating to the Company's financial statements and internal control systems. The Committee normally meets twice a year, with further meetings as circumstances require.

### **Auditors**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

By Order of the Board,

**Gavin Saunders**

Company Secretary

# THEO FENNELL PLC

## Report of the Independent Auditor to the Members of Theo Fennell plc

We have audited the financial statements of Theo Fennell plc for the year ended 31 March 2008, which comprise the principal accounting policies, the profit and loss account, the balance sheet, the cash flow statement, and notes 1 to 24. 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 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, whether they are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **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.

# THEO FENNELL PLC

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 31 March 2008 and of its profit for the year ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements for the year ended 31 March 2008.

**Grant Thornton UK LLP**  
Registered Auditor  
Chartered Accountants  
London

10 September 2008

# THEO FENNELL PLC

## Profit and Loss Account For the year ended 31 March 2008

	Note	2008 £	2007 £
<b>Turnover</b>		28,065,078	25,360,518
Cost of sales		(23,986,310)	(21,828,970)
<b>Gross profit</b>		<u>4,078,768</u>	<u>3,531,548</u>
Administrative expenses		(2,201,045)	(1,854,190)
Exceptional administrative expenses	1	(500,600)	(255,999)
Total administrative expenses		<u>(2,701,645)</u>	<u>(2,110,189)</u>
<b>Operating profit</b>		1,377,123	1,421,359
Net interest receivable/(payable)	2	25,350	(51,040)
<b>Profit on ordinary activities before taxation</b>	1	1,402,473	1,370,319
Tax on profit on ordinary activities	3	(432,853)	184,638
<b>Retained profit for the year</b>	16,17	<u>969,620</u>	<u>1,554,957</u>
Basic earnings per share	5	<u>5.21p</u>	<u>9.57p</u>
Diluted earnings per share	5	<u>4.74p</u>	<u>7.81p</u>

There were no recognised gains or losses other than the profit for the financial year.

All turnover arises from continuing operations.

The accompanying accounting policies and notes form an integral part of these financial statements.

# THEO FENNELL PLC

## Balance Sheet as at 31 March 2008

	Note	2008	2007
		£	£
<b>Fixed assets</b>			
Tangible assets	7	737,907	641,964
<b>Current assets</b>			
Stocks	8	10,053,293	9,024,623
Debtors	9	2,408,794	4,542,854
Cash at bank and in hand		958,008	10,972
		<u>13,420,095</u>	<u>13,578,449</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(4,046,526)</u>	<u>(5,036,722)</u>
<b>Net current assets</b>		<u>9,373,569</u>	<u>8,541,727</u>
<b>Total assets less current liabilities</b>		<u>10,111,476</u>	<u>9,183,691</u>
<b>Creditors: amounts falling due after more than one year</b>			
Convertible loan note	12	-	(400,000)
Other	12	<u>(187,622)</u>	<u>(9,121)</u>
		<u>(187,622)</u>	<u>(409,121)</u>
<b>Net assets</b>		<u><u>9,923,854</u></u>	<u><u>8,774,570</u></u>
<b>Capital and reserves</b>			
Called up share capital	14	935,533	913,791
Share premium account	16	4,552,857	4,423,850
Profit and loss account	16	4,380,463	3,410,843
Share options reserve	16	55,001	26,086
<b>Equity shareholders' funds</b>	17	<u><u>9,923,854</u></u>	<u><u>8,774,570</u></u>

The financial statements were approved by the Board of Directors on 10 September 2008.

F R Northcott  
**Director**

P Harper  
**Director**

The accompanying accounting policies and notes form an integral part of these financial statements.

# THEO FENNELL PLC

## Cash Flow Statement For the year ended 31 March 2008

	Note	£	2008 £	£	2007 £
<b>Net cash inflow from operating activities</b>	21		1,940,513		642,586
<b>Returns on investments and servicing of finance</b>					
Interest paid on bank loans, overdrafts and other loans		(77,022)		(140,456)	
Interest element of finance lease payments		(6,138)		(5,814)	
Interest received		108,510		98,365	
			25,350		(47,905)
<b>Taxation</b>					
Corporation tax received / (paid)			140,139		(211,638)
<b>Capital expenditure</b>					
Purchase of tangible fixed assets		(482,281)		(95,459)	
			(482,281)		(95,459)
<b>Net cash inflow before financing</b>			1,623,721		287,584
<b>Financing</b>					
Issue of share options			79,665		75,086
Capital element of finance lease payments			(19,848)		(46,542)
Bank loan			203,154		(118,365)
<b>Increase in cash</b>	22		<u>1,886,692</u>		<u>197,763</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

# THEO FENNELL PLC

## Accounting Policies For the year ended 31 March 2008

### Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The principal accounting policies which are set out below have remained unchanged from the previous year. These policies have been applied consistently in dealing with items in relation to the Company's financial statements and have been reviewed in accordance with Financial Reporting Standard 18 "Accounting Policies".

The financial statements have been prepared on a going concern basis which assumes that the company will continue in operational existence for the foreseeable future, and that the Company's banking facilities will continue to be available. The directors therefore believe that it is appropriate for the financial statements to be prepared on a going concern basis.

### Turnover

Turnover, substantially all of which arises in the United Kingdom and relates to the Company's principal activity, represents the net amounts, excluding discounts and Value Added Tax, invoiced during the year by the Company in respect of sales to third parties.

### Fixed Assets & Depreciation

Tangible fixed assets are stated at their purchase price, including any incidental expenses of acquisition.

Depreciation has been provided on a straight line basis to write down the cost less estimated residual value of tangible fixed assets over their estimated useful lives, at the following rates:

Fixtures and fittings and computer equipment	20% to 50% per annum
Moulds and tooling	20% per annum

Depreciation commences in the month in which an asset is purchased.

### Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured on an undiscounted basis using rates of tax that have been enacted or substantively enacted, by the balance sheet date.

### Finance lease and hire purchase agreements

Where the company enters into a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset at the present value of the minimum lease payments and is depreciated over the shorter of the lease term and the asset's useful economic life. Future instalments under such leases, net of finance charges, are included in creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss

# THEO FENNELL PLC

## Accounting Policies (continued)

For the year ended 31 March 2008

account at a constant rate of charge on the balance of capital repayments outstanding, and the capital element, which reduces the outstanding obligation.

Hire purchase contracts which are of a financing nature are accounted for on a basis similar to finance leases. Other hire purchase contracts are accounted for on a basis similar to operating leases.

### Operating lease agreements

Leases where substantially all of the risks and rewards of ownership are not transferred to the company are treated as operating leases. Rentals under operating leases are charged against profits on a straight-line basis over the period of the lease.

### Stocks

Stocks are stated at the lower of cost and net realisable value. In the case of raw materials, cost is the purchase price, including transport and handling costs and less trade discounts, calculated on a first in first out basis. In the case of work in progress and finished goods, cost consists of direct materials, direct labour and attributable production and other overheads. Net realisable value is the estimated selling price, less trade discounts and all further costs to be incurred in marketing, selling and distribution.

### Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any gain or loss arising from a change in exchange rates is dealt with in the profit and loss account.

Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences on non-monetary items are recognised in the statement of total recognised gains and losses to the extent that they relate to a gain or loss on that non-monetary item taken to the statement of total recognised gains and losses, otherwise such gains and losses are recognised in the profit and loss account.

### Defined contribution pension scheme

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the year.

### Financial Instruments

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate. Income and expenditure arising on financial instruments are recognised on an accruals basis, and credited or charged to the profit and loss account in the financial period to which they relate.

# THEO FENNELL PLC

## Accounting Policies (continued)

For the year ended 31 March 2008

Interest differentials, under which the amounts and periods for which interest rates on borrowings are varied, are reflected as adjustments to interest payable.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities.

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

An equity instrument is any contract that evidences a residual interest in the assets of the group/company after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves.

### Share-based incentives

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 7 November 2002 are recognised in the financial statements.

Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets). In the case of options granted, fair value is measured by a Black-Scholes pricing model. Further details are set out in note 15.

All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to "share option reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

# THEO FENNELL PLC

## Notes to the Financial Statements For the year ended 31 March 2008

### 1. Profit on ordinary activities before taxation

This is stated after charging / (crediting) the following items:

	2008	2007
	£	£
Depreciation	386,338	377,478
Auditor's remuneration - audit services	24,594	23,504
- taxation services	3,250	7,458
Profit on foreign currency transactions	(10,742)	(128,934)
Operating lease rentals on land and buildings	440,000	430,000
Equity-settled share-based payments	28,915	26,086

### Exceptional administrative expenses

The exceptional administrative charge in the year to 31 March 2008 relates to the costs of the departure of the previous Managing Director and the appointment of Pamela Harper as Chief Executive.

The exceptional charge of £255,999 to administrative expenses for the year to 31 March 2007 relates to employers' national insurance payable on the effective gain made on the redemption of the convertible loan note by certain directors in March 2007.

The Company benefited from tax relief available on the effective gain made on the conversion on the Loan Note resulting in a tax credit of £600,000 (see note 4). By also taking into account the corporations tax effect of the exceptional administrative expenses the net effect of the loan note conversion on the prior year results was to increase Profit after tax by £420,800.

### 2. Net interest payable

	2008	2007
	£	£
On bank loans, overdrafts and other loans	55,370	73,591
On convertible loan note	21,652	70,000
On finance lease agreements	6,138	5,814
	83,160	149,405
Interest receivable	(108,510)	(98,365)
	(25,350)	51,040

### 3. Tax on profit on ordinary activities

The taxation charge is based on the profit for the year and represents:

	2008	2007
	£	£
Current tax:		
UK Corporation tax at 30% (2007: 30%)	461,717	(140,130)
Adjustment in respect of prior years	(9)	(12,874)
	461,708	(153,004)
Deferred Tax:		
Origination and reversal of timing differences (see note 10)	(28,855)	(31,634)
	432,853	(184,638)

# THEO FENNELL PLC

## Notes to the Financial Statements (continued) For the year ended 31 March 2008

### 4. Factors affecting the tax charge for the period

The current tax assessed for the period is lower than the standard rate of corporation tax in the UK 30% (2007: 30%). The differences are explained as follows:

	2008	2007
	£	£
Profit on ordinary activities before tax	<u>1,402,473</u>	<u>1,370,319</u>
Tax at standard rate of 30% (2007: 30%)	420,742	411,095
Effect of:		
Capital allowances for the period in excess of depreciation	24,292	37,838
Other short term timing differences	(8,585)	(3,354)
Tax relief on conversion of loan note stock	-	(600,000)
Expenses not deductible for tax purposes	25,268	26,058
Marginal relief	-	(11,767)
Adjustment to tax charge in respect of previous periods	(9)	(12,874)
	<u>461,708</u>	<u>(153,004)</u>

### 5. Earnings per share

Profit per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares during the year. Share options are generally dilutive if the exercise price was below the average market price for the year end 31 March 2008 of £0.985.

	2008	2007
	£	£
Profit for the financial year	969,620	1,554,957
Effect of convertible loan note	<u>14,700</u>	<u>49,000</u>
Adjusted profit for dilutive earnings per share	984,320	1,603,957
Weighted average number of ordinary shares	18,607,508	16,243,353
Effect of dilutive share options	1,143,119	966,916
Effect of convertible loan note	<u>1,027,777</u>	<u>3,316,893</u>
Adjusted weighted average number of ordinary shares	20,778,404	20,527,162
Earnings per share – basic	<u>5.21p</u>	<u>9.57p</u>
Earnings per share – diluted	<u>4.74p</u>	<u>7.81p</u>

# THEO FENNELL PLC

## Notes to the Financial Statements (continued) For the year ended 31 March 2008

### 5. Earnings per share (continued)

Earnings per share excluding exceptional items are calculated as follows:

	2008	2007
	£	£
Profit for the financial year	969,620	1,554,957
Effect of partial redemption of convertible loan note (note 1)	-	(420,800)
Board Reorganisation (refer note 1)	<u>350,420</u>	<u>-</u>
Adjusted profit excluding exceptional items for basic earnings per share	1,320,040	1,134,157
Effect of convertible loan note	<u>14,700</u>	<u>49,000</u>
Adjusted profit excluding exceptional items for dilutive earnings per share	1,334,740	1,183,157
Weighted average number of ordinary shares	18,607,508	16,243,353
Effect of dilutive share options	1,143,119	966,916
Effect of convertible loan note	<u>1,027,777</u>	<u>3,316,893</u>
Adjusted weighted average number of ordinary shares	20,778,404	20,527,162
Earnings per share excluding exceptional items – basic	<u>7.09p</u>	<u>6.98p</u>
Earnings per share excluding exceptional items – diluted	<u>6.42p</u>	<u>5.76p</u>

The earnings per share excluding exceptional items shows the effect on basic and diluted earnings per share had the partial redemption of the convertible loan note not occurred (refer note 1).

### 6. Directors and employees

The aggregate payroll costs of directors and employees for the year were:

	2008	2007
	£	£
Wages and salaries	3,866,166	3,454,390
Social security costs	453,700	430,624
Pension costs	235,872	225,730
Equity-settled share-based payments	<u>28,915</u>	<u>26,086</u>
	<u>4,584,653</u>	<u>4,136,830</u>

# THEO FENNELL PLC

## Notes to the Financial Statements (continued) For the year ended 31 March 2008

### 6. Directors and employees (continued)

The average number of persons employed by the Company (including executive directors), during the year, was as follows:

	2008	2007
	Number	Number
Average number of employees		
Sales	42	41
Manufacturing	10	10
Design, marketing and administration	31	31
	<u>83</u>	<u>82</u>

Remuneration in respect of directors was as follows:

	2008	2007
	£	£
Emoluments	966,602	871,530
Compensation for loss of office	349,000	–
Pension contributions to money purchase schemes	129,160	119,796
	<u>1,444,762</u>	<u>991,326</u>

During the year, six directors (2007: five directors) participated in money purchase pension schemes.

The amounts set out above include remuneration in respect of the highest paid director as follows:

	2008	2007
	£	£
Emoluments	187,765	293,178
Compensation for loss of office	349,000	–
Pension contributions to money purchase schemes	25,500	53,045
	<u>562,265</u>	<u>346,223</u>

During the year ended 31 March 2008 the directors purchased goods, in the ordinary course of business, to the value of £39,923 (2007: £19,213), of which £5,250 (2007: £4,821) was outstanding at the year end.

# THEO FENNELL PLC

## Notes to the Financial Statements (continued) For the year ended 31 March 2008

### 7. Tangible fixed assets

	Fixtures, fittings and computer equipment £	Moulds and tooling £	Total £
<b>Cost</b>			
At 1 April 2007	2,861,309	609,227	3,470,536
Additions	475,954	6,327	482,281
Disposals	–	–	–
At 31 March 2008	3,337,263	615,554	3,952,817
<b>Depreciation</b>			
At 1 April 2007	2,230,396	598,176	2,828,572
Charge for the year	381,310	5,028	386,338
Depreciation released	–	–	–
At 31 March 2008	2,611,706	603,204	3,214,910
<b>Net book value</b>			
At 31 March 2008	725,557	12,350	737,907
At 31 March 2007	630,913	11,051	641,964

Included within the above figures are fixtures and fittings under finance leases with a net book value of £30,356 (2007: £47,676). The depreciation charged on these assets during the year was £17,320 (2007: £29,644).

### 8. Stocks

	2008 £	2007 £
Raw materials	633,497	841,685
Work in progress	45,012	47,377
Finished goods	9,374,784	8,135,561
	10,053,293	9,024,623

The Company held £4,091,688 of stock on consignment as at 31 March 2008 (2007: £3,394,274) which is not recorded on the balance sheet. The principal terms of the consignment agreements, which can generally be terminated by either side, are such that the Company can return any or all of the stock to the relevant suppliers without financial and commercial penalties and the supplier can vary stock prices.

# THEO FENNELL PLC

## Notes to the Financial Statements (continued) For the year ended 31 March 2008

### 9. Debtors

	2008	2007
	£	£
Trade debtors	1,710,713	2,793,113
Other debtors	381,758	1,276,371
Corporation tax	–	140,130
Deferred tax	70,323	41,468
Prepayments and accrued income	246,000	291,772
	<u>2,408,794</u>	<u>4,542,854</u>

Included in other debtors are rent deposits of £372,500 (2007: £372,500) which are receivable after more than one year.

### 10. Deferred Tax

	2008	2007
	£	£
Depreciation in excess of capital allowances of assets	(53,964)	(33,694)
Other timing differences	(16,359)	(7,774)
Deferred tax asset	<u>(70,323)</u>	<u>(41,468)</u>
Deferred tax asset at 1 April 2007	(41,468)	(9,834)
Deferred tax (credit) / charge in the profit and loss account for the period (note 3)	(28,855)	(31,634)
Deferred tax asset at 31 March 2008	<u>(70,323)</u>	<u>(41,468)</u>

### 11. Creditors: amounts falling due within one year

	2008	2007
	£	£
Bank loans and overdrafts	112,176	1,033,461
Trade creditors	1,450,200	1,584,180
Corporation tax	461,717	–
Social security and other taxes	470,645	1,418,463
Other creditors	312,372	81,281
Accruals and deferred income	933,114	899,489
Amounts due under finance lease agreements	6,302	19,848
Convertible loan note	300,000	–
	<u>4,046,526</u>	<u>5,036,722</u>

The bank loans and overdrafts are secured by a debenture over the assets and undertakings of the Company.

# THEO FENNELL PLC

## Notes to the Financial Statements (continued)

For the year ended 31 March 2008

### 12. Creditors: amounts falling due after more than one year

	2008	2007
	£	£
Convertible loan note	–	400,000
Bank loans	184,804	–
Amounts due under finance lease agreements	2,818	9,121
	<u>187,622</u>	<u>409,121</u>

The convertible loan note was issued on the 3 September 2003. Interest is payable quarterly at 7 % per annum. The loan note may be converted to ordinary shares at a conversion price of 30p per ordinary share. The loan note is repayable on 30 June 2008 to the extent which it has not been converted. The loan note is secured over the assets of the Company ranking behind that currently held by Clydesdale Bank PLC ("the Bank") whether current or in the future.

Loan notes to the value of £600,000 were converted on 27<sup>th</sup> March 2007, an amount of £255,999 was charged to the profit and loss. This amount represents national insurance contributions payable in relation to the converted notes. Further notes to the value of £100,000 were converted in May 2007.

	2008	2007
	£	£
Nominal value of convertible loan note	300,000	400,000
Equity component	–	–
Liability component at final drawn down date	<u>300,000</u>	<u>400,000</u>
Interest charged	21,000	70,000
Interest paid	<u>(21,000)</u>	<u>(70,000)</u>
Liability component at 31 March 2008	<u>300,000</u>	<u>400,000</u>

The directors believe that the net proceeds of the loan note are materially equivalent to the fair value of the liability element, and any equity component is considered immaterial.

# THEO FENNELL PLC

## Notes to the Financial Statements (continued) For the year ended 31 March 2008

### 13. Borrowings

Borrowings are repayable as follows:

	2008	2007
	£	£
<b>Within one year</b>		
Bank loans and overdrafts	112,176	1,033,461
Amounts due under finance lease agreements	6,302	19,848
Convertible loan note	300,000	–
	<u>418,478</u>	<u>1,053,309</u>
<b>Between two and five years</b>		
Bank loan	184,804	–
Amounts due under finance lease agreements	2,818	9,121
Convertible loan note	–	400,000
	<u>187,622</u>	<u>409,121</u>

### Finance leases

Future minimum payments under finance leases are as follows:

	2008	2007
	£	£
Within one year	6,912	21,624
Between two and five years	2,914	9,826
Total gross payments	<u>9,826</u>	<u>31,450</u>
Less finance charges	(706)	(2,482)
	<u>9,120</u>	<u>28,968</u>

### 14. Share Capital

	2008	2007
	£	£
<b>Authorised</b>		
30,000,000 Ordinary Shares of 5p	1,500,000	1,500,000
<b>Allotted, called up and fully paid</b>		
18,710,661 Ordinary Shares of 5p	935,533	913,791

During the year 101,500 shares were issued as a result of the exercise of share options. The nominal value of these shares was £5,075 and the consideration was £50,750. Loan notes were converted during the year resulting in the issue of 333,332 shares. The nominal value of these shares was £16,667 and the consideration was £100,000.

# THEO FENNELL PLC

## Notes to the Financial Statements (continued) For the year ended 31 March 2008

### 14. Share Capital (continued)

Options have been granted, and remain outstanding, over the Company's Ordinary shares of 5p under the Approved Employee Share Option Scheme, Unapproved Employee Share Option Schemes and Enterprise Management Incentive Scheme as follows:

Date of Grant	Number of shares		EMI	Option Price
	Approved	Unapproved		
7 September 2000	8,000	–	–	£0.50
10 November 2000	–	–	20,000	£0.50
25 March 2002	–	–	165,000	£0.25
25 March 2002	–	113,000	772,000	£0.50
25 March 2002	–	–	100,000	£1.00
10 September 2002	–	120,635	129,365	£0.35
31 July 2003	–	25,000	–	£0.30
9 December 2004	–	–	350,000	£0.35
6 December 2007	–	362,070	137,930	£0.725

These options can normally only be exercised at any time between three and ten years from the date of grant except for 745,000 of the options granted on 25 March 2002 which can be exercised at any time. There are no performance criteria on which the exercise of options is conditional.

The movement on share options in the year was as follows:

	Number	WAEP
Outstanding at 1 April 2007	1,803,000	0.45
Exercised (granted 7 September 2000)	(1,500)	0.45
Exercised (granted 10 November 2000)	(100,000)	0.45
Exercised (granted 6 December 2007)	<u>500,000</u>	0.45
Outstanding at 31 March 2008	<u><u>2,201,500</u></u>	0.45

During the year 101,500 share options were exercised. The weighted average share price at the date of exercise was £0. The weighted average exercise price of the shares options was £0.50. The premium arising on the exercise of the share options has been accounted for in the share premium reserve (note 16).

# THEO FENNELL PLC

## Notes to the Financial Statements (continued) For the year ended 31 March 2008

### 15. Share based payments

The executive share options were granted during December 2004 and December 2007. Options are granted with a fixed exercise price equal to the market price of the share under option at the date of grant. The contractual life of the option is ten years. Options were valued using a variant of the Black-Scholes option pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	6 Dec 2007	9 Dec 2004
Share price at grant date	£0.725	£0.35
Exercise price	£0.725	£0.35
Number of employees	1	4
Shares under option	500,000	375,000
Vesting period (years)	3.0	3.0
Expected volatility	43.00%	43.00%
Option life (years)	10.0	10.0
Expected life (years)	3.5	3.5
Risk free return	4.40%	4.40%
Expected dividends expressed as dividend yield	0.00%	0.00%
Fair value per options	£0.26	£0.12

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. There have been no option movements in relation to these options over the year to 31 March 2008.

### 16. Reserves

	Profit and loss account £	Share premium account £	Share options reserve £
At 1 April 2007	3,410,843	4,423,850	26,086
Profit for the year	969,620	-	-
Premium on shares issued during the year	-	129,007	-
Recognition of equity-settled share-based payments in the year	-	-	28,915
At 31 March 2008	<u>4,380,463</u>	<u>4,552,857</u>	<u>55,001</u>

# THEO FENNELL PLC

## Notes to the Financial Statements (continued) For the year ended 31 March 2008

### 17. Reconciliation of movements in shareholders' funds

	2008	2007
	£	£
Profit for the financial year	969,620	1,554,957
Recognition of equity-settled share-based payments in the year	28,915	26,086
Shares issued	21,742	104,899
Increase in share premium account	129,007	544,098
Shareholders' funds at 1 April	<u>8,774,570</u>	<u>6,544,530</u>
Shareholders' funds at 31 March	<u><u>9,923,854</u></u>	<u><u>8,774,570</u></u>

### 18. Capital commitments and contingent liabilities

The Company had committed to capital expenditure of £Nil at 31 March 2008 (2007: £Nil).

Share options granted subsequent to 5 April 1999 under unapproved schemes are subject to employers' and employees' national insurance on the gain made on exercise of such options by UK employees.

An accrual of £8,876 (2007:£31,388) has been made at 31<sup>st</sup> March 2008 based on the year end share price of £0.645 (2007:£1.325) and the elapsed portion of the relevant vesting periods.

### 19. Leasing commitments

The Company had commitments as at 31 March 2008 to make annual payments under non-cancellable operating leases of £440,000 (2007: £430,000) in respect of land and buildings. The leases to which these payments relate expire after more than five years.

### 20. Analysis of changes in net debt

	At 31 March 2007	Cash flows	Non Cash flows	At 31 March 2008
	£	£	£	£
Cash at bank and in hand	10,972	947,036	-	958,008
Bank overdraft	<u>(939,656)</u>	<u>939,656</u>	-	<u>-</u>
	(928,684)	1,886,692	-	958,008
Finance Leases	(28,968)	9,120	-	(19,848)
Convertible loan note	(400,000)	-	100,000	(300,000)
Bank loan	<u>(93,805)</u>	<u>(203,154)</u>	-	<u>(296,959)</u>
	<u><u>(1,451,457)</u></u>	<u><u>1,692,658</u></u>	<u><u>100,000</u></u>	<u><u>341,201</u></u>

# THEO FENNELL PLC

## Notes to the Financial Statements (continued)

For the year ended 31 March 2008

### 21. Reconciliation of operating profit to net cash inflow from operating activities

	2008	2007
	£	£
Operating profit	1,377,123	1,421,359
Depreciation charges	386,338	377,478
(Increase) / Decrease in stocks	(1,028,670)	(970,999)
(Increase) / Decrease in debtors	2,105,204	(1,518,522)
Increase / (Decrease) in creditors	(899,482)	1,333,270
Net cash inflow from operating activities	<u>1,940,513</u>	<u>642,586</u>

### 22. Reconciliation of net cash flow to movement in net debt

	2008	2007
	£	£
Increase in cash during the year	1,886,692	197,763
Decrease in amounts owed under finance lease agreements	9,120	46,542
Bank loan	(203,154)	118,365
Decrease in net debt due to cash movements	<u>1,692,658</u>	<u>362,670</u>
Decrease in net debt due to non cash movements	<u>100,000</u>	<u>600,000</u>
Net debt at 1 April	<u>(1,451,457)</u>	<u>(2,414,129)</u>
Net debt at 31 March	<u>341,201</u>	<u>(1,451,459)</u>

### 23. Pensions

The Company operates defined contribution pension schemes for the benefit of employees and directors. The assets of the executive scheme are administered by trustees in a fund independent from the assets of the Company. In addition the Company operates a separate group personal pension scheme for employees.

### 24. Financial Instruments

The Company's financial instruments comprise borrowings, cash, and various items, such as trade debtors, trade creditors etc, that arise directly from its operations. The Company has applied the exemption allowed under FRS 13 'Derivatives and other financial instruments: disclosures' in making no disclosures on short term debtors and creditors. The main purpose of these financial instruments is to raise finance for the Company's operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

At the year-end there was a concentration of credit risk with a balance of £446,901 (2007: £1,492,816) due to one entity.

**Notes to the Financial Statements (continued)**  
**For the year ended 31 March 2008**

**24. Financial Instruments (continued)**

**Credit risk**

In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the Finance Director on a regular basis in conjunction with debt ageing and collection history.

**Interest rate risk**

The Company finances its operations through a mixture of retained profits, bank loan, overdraft and convertible loan notes. The Company borrows at a floating interest rate of 1.5% above its Bank's base rate. The effects of interest rate fluctuations are not considered a significant risk at the current borrowing levels.

**Liquidity risk**

The Company ensures short-term flexibility through the use of the overdraft facilities. The Board does not at present consider that it is necessary to adopt a detailed borrowings policy as there are sufficient funds available within the current facilities.

**Borrowing facilities**

The Company has undrawn banking facilities available of £5,000,000 (2007: £3,966,539) at 31 March 2008 which expire within one year. These facilities are subject to review by the providers of the facilities on 31 July 2008. The Company policy is not to fix interest rates in respect of its borrowings, except in respect of the convertible loan notes.

**Currency risk**

The Company's exposure to exchange rate fluctuations is small and it is therefore the Company's policy not to hedge against foreign currency transactions.

**Financial assets and liabilities**

The Company has no financial assets, other than debtors and cash at bank.

The bank overdrafts are repayable on demand and are included in the balance sheet as a creditor due in less than one year.

The convertible loan notes are repayable on 30 June 2008 and are included in the balance sheet as a creditor due in less than one year.

The balance sheet values for financial assets and liabilities are not considered materially different to the fair values.



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