

THEO FENNELL



THEO FENNELL PLC

ANNUAL REPORT AND ACCOUNTS 2011

01955534

THEO FENNELL PLC

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THEO FENNELL PLC

Directors and Advisors

Directors	R N Hambro (Chairman) R A Pedder A T Fennell (Creative Director) A K Hadden-Paton ACA B A Snoad (resigned 3 June 2011) G R Saunders ACA (Finance Director)
Company Secretary	G R Saunders ACA
Registered Office	2b Pond Place London SW3 6TF
Registered Number	01955534
Nominated Adviser	Seymour Pierce Limited 20 Old Bailey London EC4M 7EN
Broker	Seymour Pierce Limited 20 Old Bailey London EC4M 7EN
Registered Auditor	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP
Solicitors	Osborne Clarke One London Wall London EC2Y 5EB UK
Bankers	Clydesdale Bank PLC London City Financial Solutions Centre 88 Wood Street London EC2V 7QQ
Registrars	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

THEO FENNELL PLC

Chairman's Statement

CHAIRMAN'S STATEMENT

The Company has made significant progress in this financial year. The fund raising completed at the start of the financial year has allowed the Company to invest in the development of new product, refurbishment of our stores and the launch of a new website.

Our strategy remains the same, to build on the unique strengths of the business and its design led ethos. We intend to grow the core jewellery business while developing our product offer and growing our International distribution.

Financial

For the year ended 31 March 2011 the Company achieved sales of £12.5m, in line with the prior year, and made a loss on ordinary activities before taxation and exceptional items of £0.55m. Sales for the first half of the year were up 12.5% versus the previous year however the Company experienced a difficult Christmas trading period due to the adverse weather conditions encountered across the UK at that time. This resulted in significantly lower customer footfall to stores during a key trading period, particularly from high end UK and International clients.

Current trading is however encouraging with retail sales up 15% in the first three months of the financial year to 31 March 2012 against the same period last year.

Design, Product and Operations

We have continued to develop new collections and unique one off pieces. The Bee collection was launched in June 2010, followed by the launch of Spangle, a range of pave diamond rings, earrings and bracelets, and both are now amongst our best selling collections. We have also developed a range of limited edition pieces such as the Secret Garden key and cross.

In addition the Company has invested significantly in unique one off pieces for our stores and to provide highlight pieces for our wholesale partners. We continue to explore new ways of communicating and showing our unique one off product to a wider range of customer. We have just exhibited at the Masterpiece event in London which attracts a diverse range of International clients.

Alias, the new, high quality, silver diffusion jewellery line was soft launched in November. We have been very encouraged by the initial sales of Alias and response from our existing and potential wholesale partners. The product range has already been expanded with the launch of Carnival and friendship bracelets in June. We believe that it will reach a new and extensive customer base.

We continue to develop our website as our online presence becomes an increasingly important part of the business.

THEO FENNEL PLC

Chairman's Statement (continued)

International & Wholesale

We continue to target wholesale as an important channel through which the Company will be able to expand its sales significantly both in the UK and Internationally.

Although we are already well represented across the UK, our UK distribution will expand significantly in the coming year as we launch Alias with new partners and exploit its appeal to a broader profile of customer.

During the year, we opened with new partners internationally in the Ukraine, South of France and Australia and in the first month of the current year we have opened a wholesale concession in Heathrow Terminal 3. We are now focusing our expansion on important and high growth markets which include the US, China and other areas in the Far East and continue to have positive discussions with potential partners in these markets.

We believe that Theo Fennell's unique design led jewellery has a distinct position in the International market place that will enable the business to significantly increase our wholesale sales and distribution over the coming years.

Senior Management

Barbara Snoad, CEO of Theo Fennell, left the Company on 3 June following a two year period at the Company during which Barbara worked closely with Theo Fennell and the Board to successfully refocus and turnaround the business during a challenging period. Theo has taken over as interim MD while the Board looks to restructure and strengthen the management of the Company.

Outlook

The Company has made significant progress this year having taken some important steps, which include raising new finance, the launching of Alias and work on the new website. This business is now in a stronger position with significant future potential. The improvement in our sales gives us confidence that we are on track for profitability this year.

Rupert Hambro

Chairman

14 July 2011

THEO FENNELL PLC

Directors' Report

The directors present their annual report, together with the audited financial statements, for the year ended 31 March 2011.

Business activities

Theo Fennell plc ("the Company") is a unique British luxury brand enjoying a 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 to 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 earnings, net assets liquidity and capital resources.

- The loss of key personnel is a risk that is mitigated by the regular review of remuneration packages and succession planning within the management team;
- The adverse effect of poor economic conditions on the UK and London retail markets could have a significant impact on the business given the concentration of our business in these areas. The Company's ongoing strategy is to increase our International distribution and sales;
- 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. The Company has developed business continuity plans to mitigate the impact of these types of events on the business where this is possible;
- The failure or interruptions of the Company's information technology systems would have a significant impact on the Company's operations;
- The disruption to or discontinuation of supplies from third party manufacturers could have a significant impact on the Company's ability to meet our sales targets. We mitigate this risk by having a spread of suppliers where this is possible for our production and our own internal workshop;
- A change in our relationship with the department store groups where we operate concessions could impact our sales and profitability; and
- We purchase a number of our raw materials and product in foreign currencies. A significant change in the price of key commodities and related exchange rates could impact our profitability.

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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 1% (2010: increased by 6.2%). A strong first half in our stores when sales were up by 12.5 % was offset by a poor second half due to the impact of the poor weather over the Christmas trading period;
- wholesale sales have increased by 12% (2010: increased by 116%). We continue to develop our wholesale distribution and in the current year opened in Australia and Kiev in the Ukraine;
- gross margins have increased by 0.4% (2010: increased by 10.2%); Our gross margins remained in line with the prior year as expected given the similar sales mix and distribution; and
- average sale per store has decreased to £1,874 (2010: £1,995). A slight fall in our average price was caused by the introduction of the more affordable Alias silver jewellery collection.

Dividends

The directors do not propose a dividend for the year under review (2010: £Nil). The retained loss for the year of £547,379 (2010: loss of £349,765) has been transferred from 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 notes 12 and 13 to the financial statements.

The following table shows those shareholders who, at 14 July 2011, had notified the Company that they held 3% or more of the current issued share capital:

	Number	Percentage
Alister Theodore Fennell	3,630,279	15.95
Francis Richard Northcott	3,089,987	13.58
Centric Investments Limited	2,255,916	9.91
UBS Global Asset Management	1,626,316	7.15
Henderson Global Investors Limited	1,561,316	6.86
JO Hambro Limited	1,375,958	6.04
AXA Investment Managers UK Ltd	1,212,631	5.33
Alasdair Hadden-Paton	746,625	3.28

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:

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Directors' Report (continued)

Directors

R N Hambro (Chairman)
 R A Pedder
 A T Fennell (Creative Director)
 A K Hadden-Paton ACA
 B A Snoad (resigned 3 June 2011)
 G R Saunders ACA (Finance Director)

	Ordinary Shares of 5p		Options over Ordinary Shares of 5p	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
R Hambro	1,375,958	1,244,380	–	–
R A Pedder	65,789	–	–	–
A T Fennell	3,630,279	3,630,279	1,000,000 (a)	–
A K Hadden-Paton	746,625	746,625	500,000 (b)	–
B A Snoad (resigned 3 June 2011)	131,578	–	600,000 (c)	500,000
G R Saunders	–	–	200,000 (d)	200,000

- (a) 500,000 Granted on 1 April 2010. Of these 319,997 are exercisable under the Enterprise Management Incentive Share Option Scheme at £0.38 per share and 180,003 are exercisable under the terms of the Company's Unapproved Share Option Scheme at £0.38 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. 500,000 granted on 1 August 2010 under the terms of the Company's Unapproved Share Option Scheme at a price of £0.40 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.
- (b) 300,000 Granted on 1 April 2010 under the terms of the Company's Unapproved Share Option Scheme at £0.38 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. 200,000 granted on 1 August 2010 under the terms of the Company's Unapproved Share Option Scheme at a price of £0.40 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) 500,000 Granted on 14 May 2009 under the Enterprise Management Incentive Share Option Scheme at £0.17 per share. The options vest in one year and can be exercised up to 10 years from the date of grant. 100,000 granted on 1 April 2010. Of these 93,300 are exercisable under the Enterprise Management Incentive Share Option Scheme at £0.38 per share and 6,700 are exercisable under the terms of the Company's Unapproved Share Option Scheme at £0.38 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.
- (d) 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.

The mid-market price of the Company's shares was 44.0p at 31 March 2011. During the year the mid-market price fluctuated between 71.0p and 32.5p.

B A Snoad and A T Fennell have a service contract with a notice period of twelve months. B A Snoad resigned 3 June 2011.

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Directors' Report (continued)

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 regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the 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 62 days (2010: 78 days) of average supplies for the year.

Charitable donations

Donations to charitable organisations amounted to £5,225 (2010: £12,064).

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Directors' Report (continued)

Going concern

The current economic conditions continue to create uncertainty over the level of demand for the Company's products and the Board have therefore undertaken extensive detailed forecasting of the Company's activities, including sensitivity analysis, through to September 2012.

Cash flow projections are based on conservative assumptions and continued overdraft and loan facilities of £3m. A new agreement is currently being negotiated with Clydesdale Bank plc regarding overdraft and loan facilities which are due for renewal on 31 July 2011. Should these negotiations be successful, the Board do not envisage a shortfall in working capital during the coming twelve months. The Board are encouraged that after initial discussions with the bank no matters have been brought to their attention to suggest that renewal may not be agreed on satisfactory terms.

Accordingly, based on the Company's plans for 2011/12 and after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources available from funds generated from trading and from banking facilities to continue operations for at least 12 months from the date of signing of these financial statements.

The directors are therefore satisfied that the Company has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements of the Company have been prepared on a going concern basis.

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 22 to the financial statements.

Audit Committee

The members of the Committee are Alasdair Hadden-Paton, Rupert Hambro, and Roger Pedder. 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 489 of the Companies Act 2006.

By Order of the Board,

Gavin Saunders

Company Secretary

THEO FENNELL PLC

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

Independent auditor's report to the members of Theo Fennell plc

We have audited the financial statements of Theo Fennell plc for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet, the 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).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, 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 and express an opinion on 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Emphasis of matter

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in the basis of preparation note and the borrowings note on pages 15 and 25 respectively to the financial statements, concerning the group's ability to continue as a going concern.

As explained in the basis of preparation note on page 15, the company has commenced discussions with its bankers with a view to renegotiate its overdraft facility and banking covenants but have not yet secured a commitment.

These conditions, along with the other matters explained in the basis of preparation note to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

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Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its loss 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.

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 by the company, 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.

Marc Summers, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

14 July 2011

THEO FENNELL PLC
Profit and Loss Account
For the year ended 31 March 2011

	Note	2011 £	2010 £
Turnover	1	12,487,532	12,558,409
Cost of sales	1	<u>(11,168,273)</u>	<u>(11,037,831)</u>
Gross profit		1,319,259	1,520,578
Administrative expenses		(1,823,418)	(1,687,137)
Exceptional administrative expenses	1	<u>—</u>	<u>(105,166)</u>
Total administrative expenses		(1,823,418)	(1,792,303)
Total operating loss		(504,159)	(271,725)
Net interest payable	2	<u>(43,220)</u>	<u>(78,040)</u>
Loss on ordinary activities before taxation	1	(547,379)	(349,765)
Tax on loss on ordinary activities	3	<u>—</u>	<u>—</u>
Retained loss for the year	14,15	<u><u>(547,379)</u></u>	<u><u>(349,765)</u></u>
Basic & diluted loss per share	5	<u>(2.41)p</u>	<u>(1.86)p</u>

There were no recognised gains or losses other than the loss 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 FENNEL PLC

Balance Sheet

as at 31 March 2011

Company Number 1955534

	Note	2011	2010
		£	£
Fixed assets			
Tangible assets	7	688,867	429,537
Investments	7	182,000	-
		<u>870,867</u>	<u>429,537</u>
Current assets			
Stocks	8	8,506,812	7,168,270
Debtors	9	1,596,968	1,119,136
Cash at bank and in hand		-	1,021,812
		<u>10,103,780</u>	<u>9,309,218</u>
Creditors: amounts falling due within one year	10	<u>(3,469,810)</u>	<u>(3,087,922)</u>
Net current assets		<u>6,633,970</u>	<u>6,221,296</u>
Total assets less current liabilities		<u>7,504,837</u>	<u>6,650,833</u>
Creditors: amounts falling due after more than one year	11	<u>-</u>	<u>-</u>
Net assets		<u><u>7,504,837</u></u>	<u><u>6,650,833</u></u>
Capital and reserves			
Called up share capital	12	1,137,901	940,533
Share premium account	14	5,693,166	4,572,857
Profit and loss account Share	14	554,662	1,102,041
options reserve	14	119,108	35,402
Equity shareholders' funds	15	<u><u>7,504,837</u></u>	<u><u>6,650,833</u></u>

The financial statements were approved by the Board of Directors on 14 July 2011.

R N Hambro
Director

A K Hadden-Paton
Director

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

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Cash Flow Statement

For the year ended 31 March 2011

		2011		2010	
	Note	£	£	£	£
Net cash (outflow)/inflow from operating activities	19		(1,855,488)		216,315
Returns on investments and servicing of finance					
Interest paid on bank loans, overdrafts and other loans		(54,842)		(80,211)	
Interest element of finance lease payments		-		(2,005)	
Interest received		<u>11,622</u>		<u>4,176</u>	
			(43,220)		(78,040)
Capital expenditure					
Purchase of tangible fixed assets		(519,329)		(111,090)	
Purchase of fixed asset investment		<u>(182,000)</u>		<u>-</u>	
			(701,329)		(111,090)
Net cash (outflow)/inflow before financing			(2,600,037)		27,185
Financing					
Share issuance, net of costs			1,317,677		-
Convertible loan note			-		(300,000)
Capital element of finance lease payments			-		(2,818)
Bank loan			<u>(102,959)</u>		<u>(120,885)</u>
Decrease in cash	20		<u><u>(1,385,319)</u></u>		<u><u>(396,518)</u></u>

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

THEO FENNELL PLC

Principal Accounting Policies

For the year ended 31 March 2011

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".

Going concern

The current economic conditions continue to create uncertainty over the level of demand for the Company's products and the Board have therefore undertaken extensive detailed forecasting of the Company's activities, including sensitivity analysis, through to September 2012.

Cash flow projections are based on conservative assumptions and continued overdraft and loan facilities of £3m. A new agreement is currently being negotiated with Clydesdale Bank plc regarding overdraft and loan facilities which are due for renewal on 31 July 2011. The directors have concluded that the combination of these circumstances represent a material uncertainty that casts significant doubt upon the Company's ability to continue as a going concern. Should these negotiations be successful, the Board do not envisage a shortfall in working capital during the coming twelve months. The Board are encouraged that after initial discussions with the bank no matters have been brought to their attention to suggest that renewal may not be agreed on satisfactory terms.

Accordingly, based on the Company's plans for 2011/12 and after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources available from funds generated from trading and from banking facilities to continue operations for at least 12 months from the date of signing of these financial statements.

The directors are therefore satisfied that the Company has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements of the Company have been prepared on a going concern basis.

Turnover

Turnover, substantially all of which arises in the United Kingdom, relates to the Company's principal activity. Turnover, which is stated excluding VAT and other sales taxes, is the amount receivable for goods supplied (less discounts and allowances). Wholesale sales are recognised when goods are despatched to trade customers. Retail sales and allowances are recorded when the significant risks and rewards of ownership have been transferred to the buyer.

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Principal Accounting Policies (continued)

For the year ended 31 March 2011

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.

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.

The Company recognises consignment stock in its balance sheet when there has been a substantial transfer of the risks and rewards of ownership. The related liabilities are included in trade creditors.

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.

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Principal Accounting Policies (continued)

For the year ended 31 March 2011

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.

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 company after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves.

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Principal Accounting Policies (continued)

For the year ended 31 March 2011

Share-based incentives

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

Where employees are rewarded using equity settled 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 13.

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.

Investments

Fixed asset investments are shown at cost less provision for impairment. At each balance sheet date the Company reviews the carrying amount of its fixed asset investments to determine whether there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of the investment is estimated and if this is less than its carrying amount, the difference is recognised in the profit and loss account as an impairment loss.

THEO FENNELL PLC

Notes to the Financial Statements

For the year ended 31 March 2011

1. Loss on ordinary activities before taxation

This is stated after charging / (crediting) the following items:	2011	2010
	£	£
Depreciation	259,999	276,382
Auditor's remuneration	28,073	20,067
- audit services		
- taxation services	4,250	3,750
Profit on foreign currency transactions	(106,528)	(118,028)
Operating lease rentals on land and buildings	467,500	467,500
Equity-settled share-based payments	83,706	-

Exceptional administrative expenses

The exceptional administrative charge in the year to 31 March 2010 relates to the costs of the departure of the previous Chairman and other staff.

2. Net interest payable

	2011	2010
	£	£
On bank loans, overdrafts and other loans	54,842	65,417
On convertible loan note	-	14,794
On finance lease agreements	-	2,005
	<u>54,842</u>	<u>82,216</u>
Interest receivable	(11,622)	(4,176)
	<u>43,220</u>	<u>78,040</u>

3. Tax on loss on ordinary activities

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

	2011	2010
	£	£
Current tax:		
UK Corporation tax at 28% (2010: 28%)	-	-
Adjustment in respect of prior years	-	-
	<u>-</u>	<u>-</u>
Deferred tax:		
Origination and reversal of timing differences (see note 4)	-	-
	<u>-</u>	<u>-</u>

THEO FENNELL PLC

Notes to the Financial Statements

For the year ended 31 March 2011

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 28% (2010: 28%). The differences are explained as follows:

	2011	2010
	£	£
Loss on ordinary activities before tax	<u>(547,379)</u>	<u>(349,765)</u>
Tax at standard rate of 28% (2010: 28%)	(153,266)	(97,934)
Effect of:		
Capital allowances for the period in excess of depreciation	(22,786)	1,291
Other short term timing differences	(1,705)	(5,961)
Expenses not deductible for tax purposes	53,701	21,585
Tax losses carried forward	<u>124,056</u>	<u>81,019</u>
	<u>-</u>	<u>-</u>

Unrelieved tax losses remain available to offset against future taxable profits. These losses have not been recognised as deferred tax assets within the financial statements due to the uncertainty of the recoverability of the asset. Losses carried forward in the UK total £2,168,279 (2010: £1,718,414) – tax effect is £563,753 (2010: £481,156).

5. Loss per share

Loss per share is calculated by dividing the loss 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 2011 of 40.5p.

	2011	2010
	£	£
Loss for the financial year	(547,379)	(349,765)
Weighted average number of ordinary shares	22,758,029	18,810,661
Effect of dilutive share options	-	-
Adjusted weighted average number of ordinary shares	<u>22,758,029</u>	<u>18,810,661</u>
Loss per share – basic & diluted	<u>(2.41)p</u>	<u>(1.86)p</u>

THEO FENNELL PLC

Notes to the Financial Statements (continued)

For the year ended 31 March 2011

5. Loss per share (continued)

Loss per share excluding post tax exceptional items are calculated as follows;

	2011	2010
	£	£
Loss for the financial year	(547,379)	(349,765)
Exceptional administrative expenses (refer note 1)	<u>-</u>	<u>75,720</u>
Adjusted loss excluding exceptional items for dilutive earnings per share	(547,379)	(274,045)
Weighted average number of ordinary shares	22,758,029	18,810,661
Effect of dilutive share options	<u>-</u>	<u>-</u>
Adjusted weighted average number of ordinary shares	22,758,029	18,810,661
Loss per share excluding exceptional items – basic & diluted	<u>(2.41)p</u>	<u>(1.46)p</u>

6. Directors and employees

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

	2011	2010
	£	£
Wages and salaries	2,754,296	2,730,710
Social security costs	314,671	307,746
Pension costs	195,150	188,603
Equity-settled share-based payments	<u>83,706</u>	<u>-</u>
	<u>3,347,823</u>	<u>3,227,059</u>

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

	2011	2010
	Number	Number
Average number of employees		
Sales	27	28
Manufacturing	9	8
Design, marketing and administration	<u>29</u>	<u>26</u>
	<u>65</u>	<u>62</u>

Remuneration in respect of directors was as follows:

	2011	2010
	£	£
Emoluments	683,778	547,493
Compensation for loss of office	-	55,000
Pension contributions to money purchase schemes	<u>99,500</u>	<u>89,255</u>
	<u>783,278</u>	<u>691,748</u>

THEO FENNEL PLC

Notes to the Financial Statements (continued)

For the year ended 31 March 2011

6. Directors and employees (continued)

During the year, three directors (2010: four directors) participated in money purchase pension schemes.

The amounts set out above include remuneration in respect of the following directors:

	Emoluments	Compensation for loss of office	Pension contributions	Total
	2011	2011	2011	2011
	£	£	£	£
R N Hambro	30,000	-	-	30,000
R A Pedder	30,000	-	-	30,000
A T Fennell	166,162	-	30,000	196,162
A K Hadden-Paton	100,000	-	-	100,000
B A Snoad (resigned 3 June 2011)	235,116	-	45,000	280,116
G R Saunders	122,500	-	24,500	147,000
	683,778	-	99,500	783,278

	Emoluments	Compensation for loss of office	Pension contributions	Total
	2010	2010	2010	2010
	£	£	£	£
R N Hambro	19,327	-	-	19,327
R A Pedder	25,000	-	-	25,000
A T Fennell	115,889	-	23,178	139,067
A K Hadden-Paton	38,846	-	-	38,846
B A Snoad (resigned 3 June 2011)	204,649	-	40,455	245,104
G R Saunders	122,500	-	24,500	147,000
F R Northcott	17,917	55,000	1,122	74,039
Viscount Cowdray	3,365	-	-	3,365
	547,493	55,000	89,255	691,748

During the year ended 31 March 2011 the directors purchased goods, in the ordinary course of business, to the value of £16,682 (2010: £52,948), of which £7,186 (2010: £348) was outstanding at the year end.

Directors share interests and options:

	Ordinary Shares of 5p		Options over Ordinary Shares of 5p	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
R N Hambro	1,375,958	1,244,380	-	-
R A Pedder	65,789	-	-	-
A T Fennell	3,630,279	3,630,279	1,000,000	-
A K Hadden-Paton	746,625	746,625	500,000	-
B A Snoad (resigned 3 June 2011)	131,578	-	600,000	500,000
G R Saunders	-	-	200,000	200,000

THEO FENNEL PLC

Notes to the Financial Statements (continued)

For the year ended 31 March 2011

7. Tangible fixed assets

	Fixtures, fittings and computer equipment £	Moulds and tooling £	Total £
Cost			
At 1 April 2010	3,616,529	622,824	4,239,353
Additions	515,001	4,328	519,329
At 31 March 2011	<u>4,131,530</u>	<u>627,152</u>	<u>4,758,682</u>
Depreciation			
At 1 April 2010	3,197,753	612,063	3,809,816
Charge for the year	257,288	2,711	259,999
At 31 March 2011	<u>3,455,041</u>	<u>614,774</u>	<u>4,069,815</u>
Net book value			
At 31 March 2011	<u>676,489</u>	<u>12,378</u>	<u>688,867</u>
At 31 March 2010	<u>418,776</u>	<u>10,761</u>	<u>429,537</u>

Fixed asset investments

	2011 £
At 1 April 2010	-
Additions	182,000
At 31 March 2011	<u>182,000</u>

On 22 June 2010, the Company acquired a 20% interest in the Original Design Partnership Limited, incorporated in the United Kingdom, a company founded by A T Fennell in May 2008 to provide design services and nurture new design talent in jewellery and other areas. The Company has acquired 9% of the existing issued share capital for cash consideration of £72,000 and have invested a further £110,000 of new equity in The Original Design Partnership to give the Company a 20% interest in the enlarged issued share capital of The Original Design Partnership. The new money will be used by The Original Design Partnership for capital expenditure and working capital requirements.

For the 10 months ended 31 March 2010 the Original Design Partnership made a profit before tax of £14,681 and the total capital and reserves was £94,674.

This is treated as a fixed asset investment as the Company does not exert significant influence over The Original Design Partnership. The Company is not involved in the strategic, operational and financial decision making of The Original Design Partnership and we do not have independent Board representation.

THEO FENNELL PLC

Notes to the Financial Statements (continued)

For the year ended 31 March 2011

8. Stocks	2011	2010
	£	£
Raw materials	897,708	692,849
Work in progress	98,163	55,102
Finished goods	<u>7,510,941</u>	<u>6,420,319</u>
	<u><u>8,506,812</u></u>	<u><u>7,168,270</u></u>

The Company held £2,383,242 of stock on consignment as at 31 March 2011 (2010: £2,586,774) 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.

9. Debtors

	2011	2010
	£	£
Trade debtors	1,175,140	815,662
Other debtors	108,767	10,567
Prepayments and accrued income	<u>313,061</u>	<u>292,907</u>
	<u><u>1,596,968</u></u>	<u><u>1,119,136</u></u>

10. Creditors: amounts falling due within one year

	2011	2010
	£	£
Bank loans	1,460,958	1,563,917
Bank overdrafts	363,507	-
Trade creditors	1,088,729	915,045
Social security and other taxes	301,504	325,781
Other creditors	78,095	77,460
Accruals and deferred income	<u>177,017</u>	<u>205,719</u>
	<u><u>3,469,810</u></u>	<u><u>3,087,922</u></u>

The bank loans 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 2011

11. Borrowings

Borrowings are repayable as follows:

	2011	2010
	£	£
Within one year		
Bank loans and overdrafts	<u>1,460,958</u>	<u>1,563,917</u>
	<u>1,460,958</u>	<u>1,563,917</u>

The bank loans are secured by a debenture over the assets and undertakings of the Company. The Company is currently in breach of certain of its banking covenants therefore technically all the Company's bank loans and overdrafts are repayable on demand and have therefore been classified as all repayable within one year.

12. Share capital

	2011	2010
	£	£
Allotted, called up and fully paid		
22,758,029 (2010: 18,810,661) Ordinary Shares of 5p	<u>1,137,901</u>	<u>940,533</u>

On 1 April 2010 the Company raised £1,500,000 (gross) through a placing of 3,947,368 new ordinary shares of 5p at a price of 38p each with new and existing shareholders.

Capital risk management

Capital is managed to ensure that the Company will be able to continue as a going concern whilst maximising returns to shareholders through the optimisation of debt and equity balances. The capital structure of the group is presented in note 14 and details of loans and overdrafts are given in note 11. The Company is not subject to externally imposed capital requirements.

THEO FENNELL PLC

Notes to the Financial Statements (continued)

For the year ended 31 March 2011

12. Share capital (continued)

Share options

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	6,500	–		–	£0.50
10 November 2000	–	–		15,000	£0.50
10 September 2002	–	–		50,000	£0.35
9 December 2004	–	–		150,000	£0.35
14 May 2009	–	–		500,000	£0.17
1 April 2010	–	486,703		513,297	£0.38
1 August 2010	–	700,000		–	£0.40
Total	<u>6,500</u>	<u>1,186,703</u>		<u>1,228,297</u>	

These options can normally only be exercised at any time between three and ten years from the date of grant. 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 2010	721,500	£0.23
Lapsed	–	
Granted	<u>1,700,000</u>	£0.39
Outstanding at 31 March 2011	<u>2,421,500</u>	£0.34

THEO FENNELL PLC

Notes to the Financial Statements (continued)

For the year ended 31 March 2011

13. Share based payments

The executive share options were granted during December 2004, May 2009, April 2010 and August 2010. 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. All options are equity settled. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	1 Aug 2010	1 Apr 2010	14 May 2009	9 Dec 2004
Share price at grant date	£0.40	£0.38	£0.17	£0.35
Exercise price	£0.40	£0.38	£0.17	£0.35
Number of employees	2	4	1	1
Shares under option	700,000	1,000,000	500,000	200,000
Vesting period (years)	3.0	3.0	1.0	3.0
Expected volatility	43.00%	43.00%	43.00%	43.00%
Option life (years)	10.0	10.0	10.0	10.0
Expected life (years)	3.5	3.5	3.5	3.5
Risk free return	1.75%	1.75%	1.75%	4.40%
Expected dividends expressed as dividend yield	0.00%	0.00%	0.00%	0.00%
Fair value per options	£0.13	£0.11	£0.05	£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 movements in relation to these options over the year to 31 March 2011.

14. Reserves

	Share premium account £	Profit and loss account £	Share options reserve £
At 1 April 2010	4,572,857	1,102,041	35,402
Loss for the year	-	(547,379)	-
Premium on shares issued during the year, net of costs	1,120,309		
Recognition of equity settled share based payments In the year	-	-	83,706
At 31 March 2011	<u>5,693,166</u>	<u>554,662</u>	<u>119,108</u>

THEO FENNEL PLC

Notes to the Financial Statements (continued)

For the year ended 31 March 2011

15. Reconciliation of movements in shareholders' funds

	2011	2010
	£	£
Loss for the financial year	(547,379)	(349,765)
Recognition of equity-settled share-based payments in the year	83,706	1,478
Shares issued	197,368	-
Increase in share premium account	1,120,309	-
Shareholders' funds at 1 April	<u>6,650,833</u>	<u>6,999,120</u>
Shareholders' funds at 31 March	<u><u>7,504,837</u></u>	<u><u>6,650,833</u></u>

16. Capital commitments and contingent liabilities

The Company had committed to capital expenditure of £Nil at 31 March 2011 (2010: £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 £Nil (2010: £Nil) has been made at 31 March 2011 based on the year end share price of £0.440 (2010: £0.370) and the elapsed portion of the relevant vesting periods.

17. Leasing commitments

The Company had commitments as at 31 March 2011 to make annual payments under non-cancellable operating leases of £467,500 (2010: £467,500) in respect of land and buildings. The leases to which these payments relate expire after more than five years.

18. Analysis of changes in net debt

	At 31 March 2010	Cash flows	Non Cash flows	At 31 March 2011
	£	£	£	£
Cash at bank and in hand	1,021,812	(1,021,812)	-	-
Bank overdrafts	<u>-</u>	<u>(363,507)</u>	<u>-</u>	<u>(363,507)</u>
	1,021,812	(1,385,319)	-	(363,507)
Bank loans	<u>(1,563,917)</u>	<u>102,959</u>	<u>-</u>	<u>(1,460,958)</u>
	<u><u>(542,105)</u></u>	<u><u>(1,282,360)</u></u>	<u><u>-</u></u>	<u><u>(1,824,465)</u></u>

THEO FENNELL PLC

Notes to the Financial Statements (continued)

For the year ended 31 March 2011

19. Reconciliation of operating loss to net cash (outflow) / inflow from operating activities

	2011	2010
	£	£
Operating loss	(504,159)	(271,725)
Depreciation charges	259,999	276,382
Loss on sale of fixed assets	-	-
Share option charge	83,706	
(Increase) / decrease in stocks	(1,338,542)	1,337,823
(Increase) / decrease in debtors	(477,832)	176,509
Increase / (decrease) in creditors	121,340	(1,302,674)
Net cash (outflow)/ inflow from operating activities	<u>(1,855,488)</u>	<u>216,315</u>

20. Reconciliation of net cash flow to movement in net debt

	2011	2010
	£	£
Decrease in cash during the year	(1,385,319)	(396,518)
Decrease in amounts owed under finance lease agreements	-	2,818
Decrease in amounts owed under convertible loan note	-	300,000
Bank loans	102,959	120,885
Increase in net (debt)/funds due to cash movements	(1,282,360)	27,185
Net debt at 1 April	<u>(542,105)</u>	<u>(569,290)</u>
Net debt at 31 March	<u>(1,824,465)</u>	<u>(542,105)</u>

21. 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.

22. 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 £357,821 (2010: £173,360) due from one entity.

THEO FENNELL PLC

Notes to the Financial Statements (continued)

For the year ended 31 March 2011

22. 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 and overdraft. The Company borrows at a floating interest rate of 3.95% 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 unutilised banking facilities available of £1,609,519 (2010: £2,457,195) at 31 March 2011 which expire on 31 July 2011. These facilities are subject to review by the providers of the facilities on 31 July 2011. The Company's policy is not to fix interest rates in respect of its borrowings.

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

23. Related party transactions

The Original Design Partnership

During the year The Original Design Partnership were paid design/consultancy fees £311,475 (2010: £400,000), purchases of stock £203,114 (2010: £177,822), commission £1,541 (2010: £3,530) and expenses £408 (2010: £10,223). The Company also held £110,208 (2010: £130,481) of consignment stock from The Original Design Partnership.

The Original Design Partnership qualifies as a related party because it is an entity under the control of an individual (Theo Fennell) who is key management personnel of Theo Fennell plc.



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