

ARTIGIANO

SCALA HOLDINGS LIMITED
(formerly De Facto 1426 Limited)

Company registration number 5978728

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 JANUARY 2008

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SCALA HOLDINGS LIMITED

CONTENTS

Company information	1
Directors' report	2 - 4
Statement of directors' responsibilities	5
Independent auditors report	6 - 7
Consolidated profit and loss account	8
Consolidated balance sheet	9
Company balance sheet	10
Consolidated cash flow statement	11
Notes to the financial statements	12 - 29

SCALA HOLDINGS LIMITED

COMPANY INFORMATION

Company registration number	5978728
Registered Office	Artigiano Design Centre Elm Lane Shalfleet Isle of Wight PO30 4JY
Website	www.artigiano.co.uk
Directors	C E B Locke C G Sheath C Coucher
Secretary	C G Sheath
Bankers	Lloyds TSB Bank plc 22 St Thomas Square Newport Isle of Wight PO30 1SQ
Auditors	PricewaterhouseCoopers LLP Savannah House 3 Ocean Way Ocean Village Southampton Hampshire SO14 3TJ
Solicitors	Travers Smith 10 Snow Hill London EC1A 2AL Shoosmiths Apex Plaza Forbury Road Reading RG1 1SH

SCALA HOLDINGS LIMITED

REPORT OF THE DIRECTORS' FOR THE PERIOD 31 JANUARY 2008

The directors present their report and the audited financial statements of the company for the period ending 31 January 2008. The company was incorporated on 26 October 2006 as De Facto 1426 Limited and changed its name to Scala Holdings Limited on 12 December 2006.

On 15 December 2006 the company acquired Scala Collections Limited using an intermediary financing company Scala Acquisitions Limited. Note 9 sets out details of the company acquired.

Principal activities

The company's principal activity is to act as a holding company. The group's principal activity is the sale of Italian styled ladies clothing and accessories using both internet and catalogue channels under the brand names of Artigiano and Spirito di Artigiano. The operations of the company were carried out in the United Kingdom.

Business review and future prospects

In its first trading period, the group achieved turnover of £19,128,000 and an operating loss of £13,181,000. The group's trading suffered from the effects of the industrial dispute by the postal workers union.

Goodwill was impaired during the period by an amount of £11,527,000 after consideration of its carrying value by the directors.

During the period the group relocated its buying and design function to Ealing, London but continued to use designers based in Italy. The group also opened three additional clearance stores to improve the return on end of season stock liquidation.

The group expects organic growth through the development of its existing brands.

Since the balance sheet date the group has reduced its debt servicing commitments through redemption and conversion to equity of some of its loans. Details are set out in Note 28. The directors believe that the new financial structure positions the group to withstand the consequences of the general economic uncertainty and provides a more secure platform for growth.

Given the straight forward nature of the business the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Risk

The group gives appropriate consideration to risk management objectives and policies. Facilities are in place to deal with cash flow and liquidity risk. Supplier pricing risk is mitigated by a diverse supplier portfolio. Credit risk is managed through adoption of a rigorous credit policy. Exchange rate liquidity risk is managed by placing forward contracts in line with the policy agreed by the board.

SCALA HOLDINGS LIMITED

REPORT OF THE DIRECTORS' FOR THE PERIOD 31 JANUARY 2008 (continued)

Directors

Directors who served for the company during the year and up to the date of signing this report were as follows

M E Metcalf	(appointed 15 December 2006, resigned 11 August 2008)
S W J Silvester	(appointed 15 December 2006, resigned 1 October 2008)
C E B Locke	(appointed 11 December 2006)
D I Krafft	(appointed 11 December 2006, resigned 20 May 2008)
A E Froshaug	(appointed 15 December 2006, resigned 11 March 2008)
C G Sheath	(appointed 15 January 2007)
P J Vann	(appointed 23 May 2008, resigned 27 June 2008)
C Coucher	(appointed 29 September 2008)
Travers Smith Directors Limited	(appointed 26 October 2006, resigned 11 December 2006)
Travers Smith Secretaries Limited	(appointed 26 October 2006, resigned 11 December 2006)

Apart from as set out in note 27, no director has had a material interest, directly or indirectly, at any time during the period in any contract significant to the business

Statement of disclosure of information to auditors

- Each director of the company has confirmed that in fulfilling their duties as a director they have
- taken all the necessary steps in order to make themselves aware of any information relevant to the audit and to establish that the auditors are aware of that information
 - so far as they are aware, there is no relevant audit information of which the auditors have not been made aware

Employment of Disabled Persons

The group recognises its social and statutory duty to employ disabled persons. It is the group's policy to give full and fair consideration to applications for employment from disabled persons. Where employees become disabled, the group endeavours to continue to employ such people, retraining them where appropriate, provided there are duties that they are able to perform considering their particular handicap or disability.

Political and charitable contributions

The group donated £10,500 to Breakthrough, a charity concerned with breast cancer. In addition the company donated a number of products and small amounts to various charities, none of which had a value exceeding £100 and in aggregate amounted to £200.

Policy on payment of creditors

It is the group's policy to agree payment terms as part of any formal contract with a supplier. The group's policy is to pay for goods and services ordered and provided in accordance with its agreed terms and on presentation of a correct invoice from a supplier.

SCALA HOLDINGS LIMITED

REPORT OF THE DIRECTORS' FOR THE PERIOD 31 JANUARY 2008 (continued)

Health and Safety at Work

It is the group's policy to develop a health and safety culture throughout the organisation and is committed to the prevention of injuries and ill health of its employees and others who may be affected by its work activities and to prevent any damage or loss to property and equipment

The company recognises its legal responsibilities and considers that health and safety legislation provides a minimum standard, which forms the foundation for the ongoing development of its health and safety management system in addressing changing business and legislative needs

Environment


It is the policy of the group to adopt policies and procedures which take account of the need to preserve and protect the environment. The group considers the impacts of its operations on the environment in a responsible and accountable way and balances the environmental concerns with the operational obligations and available resources

Employee Involvement

The trading company supports a staff council that provides a forum for communication of significant matters related to the wellbeing of that company and discuss concerns of staff. The council meets every six months. The directors take into account employee's interests when making decisions and suggestions from employees aimed at improving the company's performance

Managers are made aware of operational and financial performance and communicate to their staff through regular briefings. Employees are made aware of their individual contribution through an appraisal system

On behalf of the board



C G Sheath
Secretary

30 October 2008

SCALA HOLDINGS LIMITED

STATEMENT OF DIRECTORS RESPONSIBILITIES

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

SCALA HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCALA HOLDINGS LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Scala Holdings Limited for the period ended 31 January 2008 which comprise the Consolidated profit and loss account, the Consolidated and Company balance sheets, the Consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

SCALA HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCALA HOLDINGS LIMITED (continued)

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 group's and the parent company's affairs as at 31 January 2008 and of the group's loss and cash flows for the year then 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

Emphasis of matter

In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning the necessity to achieve forecast levels of trading performance sufficient to allow the group to remain within the terms of its banking facilities, and so avoid the possibility of the bank withdrawing its £4,261,000 facility and recalling its loan of £9,900,000. The financial statements have been prepared on the going concern basis, the validity of which is dependent on achieving the level of sales and containment of costs within the trading performance which the directors forecast. The financial statements do not include any adjustments which would result from failure to achieve requisite sales or cost levels. Details of the circumstances relating to this emphasis of matter are set out in Note 1 to the accounts. Our opinion is not qualified in this respect.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southampton
31 October 2008

SCALA HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the 66 week period ended 31 January 2008

	Note	26 October 2006 to 31 January 2008
		£000
Turnover	1, 2	19,128
Cost of sales		(6,897)
Gross profit		12,231
Administrative expenses		(13,888)
Other operating income		3
Exceptional item – impairment of goodwill	7	(11,527)
Operating loss	4	(13,181)
Net interest and similar items	5	(3,075)
Loss on ordinary activities before taxation		(16,256)
Taxation on loss from ordinary activities	6	44
Loss for the financial period	18	(16,212)

The profit and loss account has been prepared on the basis that all operations are continuing operations

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

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

The notes on pages 12 to 29 form part of these accounts

SCALA HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET
As at 31 January 2008

	Note	2008 £000	2008 £000
Fixed assets			
Intangible assets	7, 9		9,008
Tangible assets	10		3,553
			<hr/>
			12,561
Current assets			
Stocks	11	2,282	
Debtors	12	2,040	
Cash at bank and in hand		229	
		<hr/>	
		4,551	
Creditors amounts falling due within one year	13	(3,888)	
		<hr/>	
Net current assets			663
			<hr/>
Total assets less current liabilities			13,224
Creditors amounts falling due after more than one year	14		(28,564)
Provisions for liabilities and charges	15		(436)
			<hr/>
			(15,776)
			<hr/>
Capital and reserves			
Called up share capital	17		5
Share premium account	18		431
Profit and loss account	18		(16,212)
			<hr/>
Shareholders' funds	19		(15,776)
			<hr/>

The financial statements were approved by the board of directors on 3rd October 2008



C E B Locke
Director



C G Sheath
Director

The notes on pages 12 to 29 form part of these accounts

SCALA HOLDINGS LIMITED


COMPANY BALANCE SHEET
As at 31 January 2008

	Note	2008 £000
Fixed assets		
Investments	8	484
Creditors amounts falling due within one year	13	(48)
Total assets less current liabilities		<u>436</u>
Capital and reserves		
Called up share capital	17	5
Share Premium Account	18	<u>431</u>
Shareholders' funds	19	<u>436</u>

These financial statements were approved by the board of directors on 30 October 2008



C E B Locke
Director



C G Sheath
Director

The notes on pages 12 to 29 form part of these accounts

SCALA HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT
For the 66 week period ended 31 January 2008

	Note	26 October 2006 to 31 January 2008	
		£000	£000
Net cash inflow from operating activities	20		981
Returns on investments and servicing of finance	5		
Interest received		47	
Interest paid		(1,283)	
			(1,236)
Net cash outflow from returns on investments and servicing of finance			(255)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	10		(288)
Acquisitions			
Purchase of subsidiary undertakings	9	(28,190)	
Net cash acquired with subsidiaries	9	1,235	
			(26,955)
Net cash (outflow) before financing			(27,498)
Financing			
Issue of share capital	17,18	379	
New loans		29,000	
Loan issue costs		(1,307)	
Repayment of long term loans		(600)	
Net cash inflow from financing			27,472
Decrease in cash in the period	21		(26)

The notes on pages 12 to 29 form part of these accounts

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the 66 week period ended 31 January 2008

1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below and have all been applied consistently throughout the period

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards

They are also prepared on the going concern basis which the directors consider continues to be appropriate given the following circumstances

On 5 September 2008, the group concluded its renegotiations of its banking facilities, which are now in place at least up to their next scheduled renewal date on 31 January 2010. The terms include a single covenant requirement relating to the levels of profit before depreciation, amortisation, interest and tax. In the event of a covenant breach the bank could withdraw its facilities and recall its loan.

The directors have undertaken a detailed review of forecast trading performance through to January 2011 and, having considered the range of likely outcomes, they believe that the group will be able to trade within its facilities and within the covenant requirement set. The outcome of these forecasts is dependent however upon the levels of underlying revenue and on containment of costs. Despite the inherent uncertainties in forecasting such revenues and costs, the directors are satisfied that the group will achieve the level of profit required to avoid the bank withdrawing its overdraft facilities and recalling its loan which stood at £4,261,000 and £9,900,000 respectively as at the date of approval of these financial statements.

Basis of consolidation

The consolidated financial statements incorporate the results of the company and its subsidiaries as at 31 January 2008 using the acquisition method of accounting. Under the acquisition method of accounting the results of subsidiary undertakings are included from 1 January 2007 being the closest monthly accounts date following the date of acquisition.

Goodwill

Goodwill arising on the acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Positive goodwill is capitalised and amortised through the profit and loss account over its estimated useful economic life which is 10 years. Impairment tests on the carrying value of goodwill are undertaken at each period end.

Related party transactions

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with other group companies on the grounds that at least 90% of the voting rights in the company are controlled within the group and the company is included in the consolidated financial statements prepared by the group.

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 66 week period ended 31 January 2008

1 Summary of significant accounting policies (continued)

Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods in the ordinary course of the company's activities. Revenue is shown net of value added tax, returns and discounts. Revenue is recognised as follows:

a) Sales of goods – mail order

Sales of goods through catalogue and internet channels are recognised at the time orders are dispatched to customers. Returns are recorded in the period that the original sale related to. Catalogue and internet sales are usually by credit card or cheque.

It is the company's policy to sell its products to catalogue and internet customers with a right of return. A provision has been made at the period end based upon the mail order goods returned by, and credited to, customers within 14 days of period end and which were originally sold prior to that date.

b) Sales of goods – retail

Sales of goods in stores and at public sales are recognised when the company sells a product to a customer. Retail sales are usually by cash or by credit card.

c) Interest income

Interest income is recognised on a time-proportion basis.

Costs of raising finance

Finance costs of raising debt are initially capitalised and are then amortised to the profit and loss account over the term of the debt at a constant rate on the carrying amount.

Government grants

Grants that were received in respect of premises construction are held as deferred income on the balance sheet. This balance is released to the profit and loss account to match the depreciation on that element of the constructed asset which was facilitated by the grant monies.

Tangible fixed assets and depreciation

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets over their expected useful lives as follows:

Freehold land	0%
Freehold buildings	2.5% straight line
Leasehold property, improvements & equipment	shorter of 10 years or life of lease straight line
Computer equipment	33.33% straight line or reducing balance
Other equipment	15% straight line or reducing balance

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase. Net realisable value is based on estimated selling price less additional costs of disposal.

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 66 week period ended 31 January 2008

1 Summary of significant accounting policies (continued)

Deferred taxation

Deferred taxation is provided on a full provision basis on all timing differences which have arisen but not reversed at the balance sheet date. A deferred taxation asset is not recognised to the extent that the transfer of economic benefit in the future is uncertain. Any assets and liabilities recognised have not been discounted.

Catalogue production costs

Catalogue production costs are based on the size and number of pages per catalogue and the number of catalogues in each production run. The costs are charged to the profit and loss account on a straight line basis from the date of the first distribution of the catalogue until the expiry of the usefulness of the catalogue, typically over a period of six months. Deferred catalogue costs relating to later periods are carried forward in the balance sheet within prepayments.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date and sales and purchases transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction, except where they are linked to forward exchange contracts in which case they are translated at the exchange rate of those contracts.

Financial instruments

The group uses derivative financial instruments, primarily to manage exposures to fluctuations in foreign currency exchange rates and interest rates.

Forward exchange contracts are used to manage the effect of currency fluctuations on planned purchases of products.

The group has protected itself against fluctuating interest rates by entering into interest rate collar agreements. When the closing interest rate falls outside the collar then the amount to be received or paid as a result is either credited or charged to the profit and loss account in the financial period to which the interest payment relates.

Pensions

The company uses a number of money purchase pension schemes for the benefit of all employees. The assets of these schemes are held separately from those of the company. Contributions to these schemes are charged to the profit and loss account, as incurred.

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 66 week period ended 31 January 2008

1 Summary of significant accounting policies (continued)

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations rather than the financial instruments legal form

2 Turnover and profit on ordinary activities before taxation

Turnover is attributable to the group's principal activity being the sale of Italian designed clothes by mail order, retail outlets and via the internet. Turnover originates in the United Kingdom, which is also the destination of a significant majority of sales

3 Directors and employees

Staff costs during the period were as follows
(including salary, bonus payments and taxable benefits supplied)

Period from
26 October 2006
to 31 January 2008
£000

Wages and salaries	2,760
Social security costs	286
Other pension costs	73
	<hr/>
	3,119
	<hr/>

The average number of persons employed by the group (including directors) during the period, analysed by category, was as follows

	Number
Management and administration	35
Sales and warehouse	78
	<hr/>
	113
	<hr/>

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 66 week period ended 31 January 2008

3 Directors and employees (continued)

Remuneration in respect of directors was as follows	Period from 26 October 2006 to 31 January 2008 £000
Emoluments	530
Social security costs	61
Pension contributions to money purchase pension schemes	31
	<hr/>
	622
	<hr/>

During the period 3 directors participated in money purchase pension schemes

All Directors costs have been borne by Scala Collections Limited but management of Scala Holdings Limited is incidental to management of the Group. The company made no payments to directors or employees during the period.

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

	Period from 26 October 2006 to 31 January 2008 £000
Emoluments	159
Social security costs	21
Pension contributions to Money Purchase Schemes	12
	<hr/>

4 Operating loss on ordinary activities before taxation

	Period from 26 October 2006 to 31 January 2008 £000
The operating loss on ordinary activities is stated after charging/(crediting)	
Auditors' remuneration	
- audit	15
- services related to taxation	4
- other services	2
Depreciation	
- tangible fixed assets	325
Amortisation of goodwill	2608
Impairment of goodwill	11,527
Other operating lease rentals	162
Release of deferred grant income	2
	<hr/>

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 66 week period ended 31 January 2008

4 Operating loss on ordinary activities before taxation (continued)

Auditors remuneration of the company is borne by Scala Collections Limited

In addition to the above amounts £502,000 was paid to the auditors in respect of the acquisition of Scala Acquisitions Limited and Scala Collections Limited which have been capitalised within loan costs and goodwill

5 Net interest

	Period from 26 October 2006 to 31 January 2008 £'000
Bank loan interest	1,231
Loan note interest	1,635
Amortisation of finance costs	256
Other interest receivable and similar income	(47)
	<hr/>
	3,075
	<hr/>

Finance costs of £1,307,000 have been capitalised and amortised at a constant rate on the carrying value of the loan

6 Tax on loss on ordinary activities

	Period from 26 October 2006 to 31 January 2008 £000
Current tax	
UK corporation tax on profit for the period	(16)
	<hr/>
	(16)
Deferred tax	
Charge for the period (see note 15)	(28)
	<hr/>
	(44)
	<hr/>

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the 66 week period ended 31 January 2008**

6 Tax on loss on ordinary activities (continued)

Factors affecting the tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 30%. The differences are explained below

	Period from 26 October 2006 to 31 January 2008 £000
Loss on ordinary activities before tax	(16,256)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(4,877)
Effects of	
Expenses not deductible for tax purposes	4,377
Capital allowances in excess of depreciation	28
Unrelieved tax loss and other deductions arising in the period	404
Other	52
Current tax charge for the period	(16)

7 Intangible fixed assets - Group

	Goodwill £000
Cost	
Upon acquisition of subsidiary (note 9)	27,842
Dividend received from subsidiary	(4,699)
At 31 January 2008	23,143
Amortisation	
Impairment	11,527
Provided for in the period	2,608
At 31 January 2008	14,135
Net book value at 31 January 2008	9,008

Impairment of goodwill

Goodwill acquired on acquisition has been allocated for impairment testing to the Mail Order and Internet Sales Cash Generating Unit (CGU) which represents the lowest level within the Group at which goodwill is monitored by management for internal reporting purposes

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 66 week period ended 31 January 2008

7 Intangible fixed assets - Group (continued)

The recoverable amount of the CGU is based on a value in use calculation using cash flow projections based on the latest three year forecasts extrapolated for six future years using a 3% compound growth rate for years four and five and a zero growth rate thereafter

A discount rate of 23.0415% has been applied to the projections. The key assumptions used in the impairment testing were as follows:

- Profit before interest and taxation
- Discount Rate
- Rates of Growth in CGU for the years 4 – 5

Profit before Interest and Taxation

Profit before interest and taxation is based on detailed forecasts approved by management and includes sales and costs growth in line with historic rate achieved and margins based upon planned product sourcing.

Discount Rate

The discount rate reflects the weighted average gross cost of capital employed for the CGU identified.

Rates of Growth in CGU for the years 4 - 5

Growth rate assumptions beyond the forecast period are based on 3% per annum.

Goodwill Impairment

An impairment charge of £11,527k resulted from a review of the carrying value of goodwill on our balance sheet, required under FRS 10 and FRS 11.

8 Intangible fixed assets - Investments

	Company £000
Additions	484
At 31 January 2008	484

The share capital in Scala Acquisitions Limited was purchased for cash.

Details of investments in which the company holds more than 10% of the nominal value of any class of share capital is as follows:

Name	Country of Incorporation or Registration	Nature of Business	Percentage of Equity held
Scala Acquisitions Limited	England	Investment Company	100%
Scala Collections Limited*	England	Home shopping	100%
* Indirect holding by Scala Acquisitions Limited			

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the 66 week period ended 31 January 2008**

9 Acquisition – Scala Acquisitions Limited and Scala Collections Limited

On 15 December 2006 the Company acquired Scala Acquisitions Limited which had acquired Scala Collections Limited earlier that same day. In calculating the goodwill arising on acquisition the fair value of the net assets of Scala Acquisitions Limited and Scala Collections Limited have been assessed as follows,

	Acquisitions Cost and fair value of net assets purchased £000	Collections Cost and fair value of net assets purchased £000
Fixed assets		
Investment	23,548	-
Tangible	-	3,590
	<u>23,548</u>	<u>3,590</u>
Current assets		
Stocks	-	1,577
Debtors	-	1,076
Post Acquisition Dividends	4,699	-
Cash	-	1,235
	<u>4,699</u>	<u>3,888</u>
Current liabilities		
Creditors and provisions	(526)	(2,373)
Post Acquisition Dividends	-	(4,699)
	<u>(526)</u>	<u>(7,072)</u>
Loans repayable in more than one year	<u>(27,315)</u>	<u>-</u>
Net assets on acquisition	<u>406</u>	<u>406</u>

Goodwill on the acquisition of Scala Collections Limited

	Goodwill £000
Consideration – Cash	25,207
– Share capital	121
– Loan notes	2,672
Acquisition fees	248
Acquisition cost	<u>28,248</u>
Net assets acquired	(406)
Goodwill arising on consolidation	<u>27,842</u>

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the 66 week period ended 31 January 2008**

9 Acquisition – Scala Acquisitions Limited (continued)

The combined results of Scala Collections Limited prior to its acquisition were as follows

Profit and loss account	Year to 31 January 2007 £000	Period from 1 August 2005 to 31 January 2006 £000
Turnover	18,343	9,214
Operating profit	1,908	1,150
Net Interest receivable	(7)	(23)
Profit on ordinary activities before taxation	1,901	1,127
Taxation on profit from ordinary activities	(151)	(353)
Profit for the period	1,750	774

There were no recognised gains or losses other than the results for the periods as set out above

Cash flows	£000
Cash consideration including expenses	28,248
Cash acquired	(1,235)
Net outflow from acquisitions	27,013

10 Tangible fixed assets - Group

	Freehold Land and Buildings £000	Leasehold Improvements £000	Equipment £000	Total £000
Cost				
Acquisition of subsidiary	3,100	97	393	3,590
Additions	-	187	101	288
At 31 January 2008	3,100	284	494	3,878
Depreciation				
Provided for in the period	93	71	161	325
31 January 2008	93	71	161	325
Net book value at 31 January 2008	3,007	213	333	3,553

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the 66 week period ended 31 January 2008**

11 Stocks

	Group £000	Company £000
Finished goods held for resale	2,282	-

12 Debtors

	Group £000	Company £000
Trade debtors	431	-
Other debtors	7	-
Prepayments	1,304	-
Corporation Tax Repayable	298	-
	2,040	-

All amounts shown under debtors fall due for payment within one year

13 Creditors amounts falling due within one year

	Group £000	Company £000
Bank loans and overdrafts	738	-
Trade creditors	2,209	-
Social security and other taxes	537	-
Accruals	402	-
Amounts owed to group undertakings		
– Scala Acquisitions Limited	-	2
– Scala Collections Limited	-	46
Deferred Income	2	-
	3,888	48

14 Creditors amounts falling due after more than one year

	Group £000	Company £000
Bank loans	11,366	-
Other loans	15,552	-
Accrued interest on other loans	1,583	-
Grants	63	-
	28,564	-

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the 66 week period ended 31 January 2008**

14 Creditors amounts falling due after more than one year (continued)

Maturity of debt for the Group	Loans £000	Debt £000
In less than one year	483	2
In more than one year but not more than two years	648	2
In more than two years but not more than five years	5,366	6
More than five years	5,352	17,188
	<hr/>	<hr/>
	11,849	17,198
	<hr/>	<hr/>
Included in current liabilities	(483)	-
	<hr/>	<hr/>
	11,366	17,198
	<hr/>	<hr/>

The bank loans bear interest at LIBOR plus 1.75% to 2.75% and are secured against the group's assets

Debt of £17,198,000 include £52,000 of Payment In Kind notes issued during the period. Interest may be payable on the loan notes by the issue of further Payment In Kind notes

The bank loans and loan notes are shown net of finance costs of £1,051,000 which have been capitalised and are being amortised over the term of the loans in accordance with Financial Reporting Standard 4. The amortisation charged to the profit and loss account during the period was £256,000

15 Provisions for liabilities and charges

	Deferred taxation (note 16) £000	Provision for returns £000	Total £000
Balances on acquisition	138	173	311
Provided during the period	(28)	153	125
	<hr/>	<hr/>	<hr/>
At 31 January 2008	110	326	436
	<hr/>	<hr/>	<hr/>

The provision for returns represents mail order products dispatched in a financial period, and returned by and credited to the customer within 14 days of the period end in accordance with the company's returns policy

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 66 week period ended 31 January 2008

16 Deferred taxation

Deferred taxation provided for in the financial statements is set out below

	Amount provided Group £000	Company £000
Accelerated capital allowances	111	-
Other timing differences	(1)	-
	<hr/>	<hr/>
	110	-
	<hr/>	<hr/>

17 Share capital

	Authorised, allotted, called up and fully paid Number	£000
106,250 "A" ordinary shares of £0.01 each	106,250	1
393,750 "B" ordinary shares of £0.01 each	393,750	4
	<hr/>	<hr/>
	500,000	5
	<hr/>	<hr/>

On 26 October 2006 the company was formed with a share capital comprising 2 ordinary shares of £1 each. On 15 December 2006 these shares were sub divided into 200 ordinary shares of £0.01 each and re-designated as B Ordinary Shares. On the same day the authorised share capital of the company was increased by the creation of 106,250 A Ordinary Shares of £0.01 each and 393,550 B Ordinary Shares of £0.01 each all of which were issued in return for a combination of cash and shares in Scala Acquisitions Limited, the cash element of which was £379,000.

Holders of B Ordinary Shares are entitled to pass resolutions and hold general meetings with short notice without the need to include A Ordinary Shareholders in the event that the company is in breach of its banking covenants. Furthermore the rights of a holder of A ordinary shares to attend and vote at general meetings cease in the event that the shareholder is in breach of the articles or shareholders agreement or if the shareholder leaves the employment of the group and a deactivation notice is served by the majority of B Ordinary Shareholders.

Holders of A Ordinary Shares who cease to be employed by the group are obliged to sell their shares within 12 months at the lower of cost or market value unless the board determines that the shareholder qualifies through ill-health, death or other reason for the consideration to be at the higher of cost or market value.

The articles place restrictions on the transfer of ordinary shares depending upon whether the shareholder is an investor or a full time employee of the group (non-investor). Non-investors transfer rights are limited to family or family trusts (whilst remaining family), personal representatives or other employee or prospective employee approved by the board. Investors may freely transfer shares between themselves and co-investment funds or to other investors but 91% of ordinary share holders must consent to other transfers.

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the 66 week period ended 31 January 2008**

17 Share capital (continued)

Holders of at least 51% of B Ordinary Shares are entitled to appoint up to two non-executive directors, a non-executive chairman and up to two persons to act as observers at board meetings

Lastly holders of at least 50% of B Ordinary Shares may serve to remove a director from office, to appoint a person to become a director or serve a compulsory purchase notice on all shareholders in the event that a bona fide arms length offer is received to purchase ordinary shares

In all other significant ways, including for purposes of dividends and return of capital on liquidation or otherwise, ordinary shares rank pari passu

18 Reserves

Group	Share Capital £000	Share premium account £000	Profit & loss account £000	Total capital & reserves £000
Issue of shares on 26 October 2006	-	-	-	-
Issue of shares on 15 December 2006	5	495	-	500
Share issue costs	-	(64)	-	(64)
Retained profit	-	-	(16,212)	(16,212)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2008	5	431	(16,212)	(15,776)
	<hr/>	<hr/>	<hr/>	<hr/>
Company	Share Capital £000	Share premium account £000	Profit & loss account £000	Total capital & reserves £000
Issue of shares on 26 October 2006	-	-	-	-
Issue of shares on 15 December 2006	5	495	-	500
Share issue costs	-	(64)	-	(64)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2008	5	431	-	436
	<hr/>	<hr/>	<hr/>	<hr/>

19 Reconciliation of movements in shareholders' funds

	Group £000	Company £000
Loss for the financial period	(16,212)	-
Issue of new shares		
Shares issued at nominal value	5	5
Share premium	495	495
Share issue costs	(64)	(64)
	<hr/>	<hr/>
Shareholders' funds at the end of the period	(15,776)	436
	<hr/>	<hr/>

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the 66 week period ended 31 January 2008

20 Net cash inflow from operating activities

**Period from
26 October 2006
to 31 January 2008**

£000

Operating loss	(13,181)
Depreciation	325
Amortisation	2,608
Impairment of goodwill	11,527
Movement on provisions	153
Increase in stocks	(704)
Increase in debtors	(899)
Increase in creditors	1,152

Net cash inflow from operating activities

981

21 Reconciliation of net cash flow to movement in net debt

**Period from
26 October 2006
to 31 January 2008**

£000

Decrease in cash in the period	(26)
Cash inflow from financing in the period	(27,349)

Change in net debt resulting from cash flows

(27,375)

Non-cash movements

(1,635)

Net funds at end of period

(29,010)

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 66 week period ended 31 January 2008

22 Analysis of changes in net debt

	Cash flow £000	Acquisition £000	Non-cash Movements £000	At end of period £000
Cash in hand and at bank	(1,006)	1,235	-	229
Overdraft	(255)	-	-	(255)
	(1,261)	1,235	-	(26)
Debt due within one year	(483)	-	-	(483)
Debt due after more than one year	(26,866)	-	(1,635)	(28,501)
	(28,610)	1,235	(1,635)	(29,010)

23 Capital commitments

At the 31 January 2008, the group had contracted to financial commitments of £4,000

24 Pensions

Pension contribution for employees are paid in to money purchase pension schemes, which are open for all employees. At 31 January 2008, contributions of then group outstanding for these schemes amounted to £3,000

25 Commitments under operating leases

At 31 January 2008 the group had annual commitments under non-cancellable operating leases as follows

	Land and buildings £000
Expiry date	
Less than one year	11
Between two and five years	101
Over five years	68
	180

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 66 week period ended 31 January 2008

26. Contingent liabilities

Along with its subsidiary companies, Scala Acquisitions Limited and Scala Collections Limited, the company is party to a debenture and various other documents which secure any financial obligations to Lloyds TSB Bank plc. At the period end these obligations amounted to £12,900,000.

The only derivative financial instruments entered in to during the period by the group were as follows:

1. An interest rate hedging agreement which seeks to mitigate the risk to eventual cash flows of changes to LIBOR. The instrument used was an interest rate collar and at the year end the LIBOR rate fell within this collar.
2. The group sought to mitigate the financial risk to contracted and planned purchases denominated in foreign currency through the use of forward currency exchange swaps. At the year end there was no exposure on forward exchange currency swaps which was unprovided.

As at 31 January 2008 the company had entered into foreign currency contracts relating to future transactions as follows:

Currency	Amount	Average Rate	£ Contracted
€	2,120,000	1.43113	1,481,343
US\$	755,000	2.01350	374,962

27. Related Party Transactions

As set out in note 9 on 15 December 2006 the company acquired Scala Acquisitions Limited, along with its subsidiary Scala Collections Limited. D I Krafft and C E B Locke (including family related parties) were shareholders and directors of Scala Collections Limited prior to its acquisition.

On 15 December 2006 G Locke, a Director of Scala Collections Limited during the period up to 15 December 2006, acquired certain fixed assets of the group for £69,713 being the net book value of those assets. In the opinion of the directors there was no material difference between the net book value of those assets and market value. There were no amounts outstanding between the company and G Locke at the year end.

28. Post Balance Sheet Event

On 5 September 2008 the company entered in to a series of transactions which restructured the financing of the group.

Other loan notes amounting to £15,552,000 and accrued interest were either converted to 238,163 Ordinary Shares of £0.01 each or redeemed for a total consideration of £142,000.

Bank loans amounting to £3,000,000 were converted into 404,685 Ordinary Shares of £0.01 each. Revised terms, a new repayment schedule and extended overdraft and ancillary facilities were agreed for the remaining £9,900,000 of the facility.

SCALA HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the 66 week period ended 31 January 2008

29. Controlling Interest

Barclays Private Equity Limited had a controlling interest through its representative funds as at the year end. However, as at the date of approval of these accounts no one party had a controlling interest.