

The Insolvency Act 1986

**Administrator's progress report**

Name of Company

Scala Collections Limited

Company number

01794834

In the  
High Court of Justice, Chancery Division,  
Companies Court

(full name of court)

Court case number

9186 of 2010

(a) Insert full  
name(s) and  
address(es) of  
administrator(s)

I/We (a)

M N Cropper  
Zolfo Cooper  
10 Fleet Place  
London  
EC4M 7RBA P Beveridge  
Zolfo Cooper  
10 Fleet Place  
London  
EC4M 7RBS C E Mackellar  
Zolfo Cooper  
Toronto Square  
Toronto Street  
Leeds  
LS1 2HJ

administrator(s) of the above company attach a progress report for the period

From

To

(b) Insert date

(b) 22 November 2010

(b) 21 May 2011

Signed

  
Joint / Administrator(s)

Dated

20/6/11

**Contact Details:**

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form

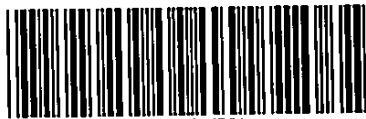
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# Joint Administrators' Progress Report for the Period 22 November 2010 to 21 May 2011

Scala Collection Limited -  
In Administration

20 June 2011

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## **1 Statutory Information**

- 1.1 I was appointed Joint Administrator of Scala Collections Limited (the Company), together with Mark Nicholas Cropper and Alastair Paul Beveridge, on 22 November 2010 by the High Court of Justice, Chancery Division, Companies Court. The application for the appointment of Administrators was made by the Directors.
- 1.2 The Administration was being handled by Zolfo Cooper's Leeds office, situated at Toronto Square, Toronto Street, Leeds, LS1 2HJ. The case was transferred to Zolfo Cooper's Manchester office with effect from 28 February 2011. The Manchester office is situated at The Zenith Building, 26 Spring Gardens, Manchester, M2 1AB.
- 1.3 The Administration is registered in the High Court of Justice, Chancery Division, Companies Court, under reference number 9186 of 2010.
- 1.4 The trading address of the Company was Artigiano Design Centre, Elm Lane, Calbourne, Newport, Isle of Wight, PO30 4JY. The business traded under the name Artigiano and Spirito de Artigiano.
- 1.5 Immediately following appointment, the registered office of the Company was changed to Toronto Square, Toronto Street, Leeds, LS1 2HJ. This has subsequently been changed to The Zenith Building, 26 Spring Gardens, Manchester, M2 1AB. Its registered number is 01794834.
- 1.6 In accordance with Paragraph 100 (2) of Schedule B1 of the Insolvency Act 1986, the functions of the Joint Administrators are being exercised by any of the Joint Administrators.

## **2 Progress of the Administration**

- 2.1 Attached at Appendix A is the Joint Administrators' Receipts and Payments Account for the Period from 22 November 2010 to 22 May 2011.
- 2.2 The analysis of receipts and payments for the period includes details of remuneration and expenses to date.

### **Administration Strategy & Objective**

- 2.3 As set out in the Joint Administrators' Report and Statement of Proposals (the Proposals), the Joint Administrators must perform their functions with the purpose of achieving one of the following objectives:
  - Rescuing the Company as a going concern; or
  - Achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Administration); or
  - Realising property in order to make a distribution to one or more secured or preferential creditors.

- 2 4 As the rescue of the Company as a going concern was not considered a viable option due to the significant costs and execution risks involved, the Joint Administrators therefore pursued the second objective of achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Administration)

### **Sale of Business - Scotts**

- 2 5 As detailed on the Proposals, the Joint Administrators achieved the objective of the Administration through the completion of the pre-packaged sale of the Company's business and certain assets to Scotts Limited (Scotts) on 22 November 2010.
- 2 6 Pursuant to a Sale and Purchase Agreement (the SPA) dated 22 November 2010, the agreed sale price for the business and assets was £2.2 million. This sum excluded an estimate for liabilities associated with product stock returns of £0.64 million. Accordingly, cash consideration of £1.56 million was received. A breakdown of the sale consideration was detailed in the Proposals.
- 2 7 Following the sale, all of the Company's employees were transferred to Scotts under the Transfer of Undertaking Protection of Employment (TUPE) Regulations therefore preserving employment for a workforce of over 100 and resulting in no preferential claims in the Administration.

### **Merchant Providers**

- 2 8 As noted in the Proposals, the Company operated merchant accounts with Lloyds Cardnet (Cardnet), American Express (AMEX) and PayPal. The Joint Administrators agreed to allow these merchant accounts to remain open following the sale whilst Scotts arranged for its own merchant accounts to be set up.
- 2 9 Now that Scott's new merchant accounts are in place, a reconciliation exercise has been undertaken with the relevant merchant providers to assess the level of pre-appointment monies held in suspense by them.
- 2 10 AMEX reconciliations showed that there were no pre-appointment monies due and PayPal reconciliations highlighted £11,150 due to the Company. This was subsequently received from Scotts as part of the purchaser reimbursements.
- 2 11 Lloyds Cardnet advised that the sum held by them in respect of pre-appointment sales, approximately £0.4 million, was to be offset against the sum due to Lloyds TSB Bank Plc (the Bank) under its security, in line with its terms and conditions agreed to by the Company.
- 2 12 The terms and conditions were reviewed by our solicitors, DLA Piper UK LLP (DLA) and they confirmed the Bank's right to set-off. Accordingly, the balance held was duly transferred to the Bank and deducted from its indebtedness.

### **Elm Lane, Shalfleet, Isle of Wight, PO30 4JY (Elm Lane)**

- 2.13 The Elm Lane property was not included in the sale to Scotts and the Joint Administrators liaised with a separate interested party in respect of the purchase of the premises. A sale of the property was completed on 21 January 2011 and the sum of £0.75 million was received.

**5<sup>th</sup> Floor CP House, 97 - 107 Uxbridge Road, Ealing, W5 5TL (Ealing)**

- 2.14 As detailed in the Proposals, Scotts were granted a licence to occupy these premises pursuant to the SPA, to provide it with the opportunity to transfer systems over to its existing premises in Brentford and to remove assets purchased under the SPA. Following vacation of the site by Scotts, the Joint Administrators assessed that there was no benefit in the lease and have formally informed the landlord of their desire to surrender the lease. To date the landlord has not accepted a surrender

**22 Post Office Road, Bournemouth, Dorset (Bournemouth)**

- 2.15 As previously advised, the Company had vacated this site long before appointment. The Joint Administrators assessed that there was no benefit in the lease and it was formally surrendered with effect from 20 December 2010.

**Purchaser Reimbursements**

- 2.16 Following the sale to Scotts, various costs were incurred in respect of wages, insurance and rent, which were recharged Scotts in accordance with the SPA. Payment in full of £20,940 has been received and all matters are now finalised.

**Rates Refunds**

- 2.17 Rates refunds totalling £5,499 have been received in respect of various properties held by the Company.

**Bank Interest**

- 2.18 A total of £432 in bank interest has been received to date

**3 Assets Still to be Realised**

**100 Seaview Road, Cowes, Isle of Wight, PO31 7UQ (Cowes)**

- 3.1 In addition to Elm Lane, the Company also operated from a freehold distribution centre in Cowes, from which the Joint Administrators have provided Scotts with a five year commercial lease to operate (the Lease).
- 3.2 Scotts have confirmed that they do not have an interest in purchasing the premises and the Joint Administrators have therefore instructed their agents, Edwards Symmons, to begin the marketing of the property for sale with a tenant in situ

## VAT Claim

- 3.3 As noted in the Proposals, prior to appointment, the Company had lodged two claims totalling approximately £2.07 million with H M Revenue & Customs (HMRC) in respect of input VAT which it was believed to have not been recovered in full. This claim has initially been rejected by HMRC however, the Joint Administrators are assessing the merits of appealing this rejection with their tax advisor.
- 3.4 Should the rejection be overturned, any realisation may initially be subject to crown-set off and therefore reducing the level of funds received for the benefit of the Administration estate.

## Rental Income

- 3.5 Under the terms of the Lease agreement with Scotts, rent of £12,500 per month is due to the Company on the 19<sup>th</sup> of every month following the expiry of the agreed six month rent-free period. This period has now expired and the first rental payment was due on 19 May 2011. Scotts have confirmed that this payment has been made, but on the basis that it was received after the date covered by this report, it is not showing on the Receipts and Payments Account at Appendix A.

## 4 Pre-Administration costs

- 4.1 The pre-Administration costs were reported in the Proposals and agreement to these was given by the Bank. Pre-appointment agents' fees of £7,500 plus VAT and disbursements were not previously included in the Proposals and approval for these has subsequently been requested from the Bank.
- 4.2 Pre-appointment fees charged and expenses incurred by the Joint Administrators are as follows:

Name of recipient	Brief description of services provided	Total amount approved (£)
Zolfo Cooper	Work in relation to the sales process, together with strategy planning and appointment related matters	48,880
DLA Piper UK LLP	Work in relation to the sales process and appointment of the Joint Administrators	67,931

## 5 Joint Administrators' Remuneration

- 5.1 The Bank approved that the basis of the Joint Administrators' remuneration be fixed by reference to time costs.

- 5 2 Below are comments in respect of how the time costs have been incurred in respect of each activity.

### **Administration and Planning**

The work involved here relates to dealing with statutory duties and case strategy of the Administration, including:

- Complying with various statutory requirements concerning the preparation and lodgement of documents; and
- Case strategy matters and internal progress meetings

### **Investigations**

Time recorded here reflects the statutory duties of the Joint Administrators to investigate the pre-appointment conduct and actions of the Directors and any correspondence with the Directors.

### **Realisations of Assets - Fixed, Floating and Debtors**

Time incurred here relates to dealing with the sale of the business and assets of the Company, including:

- Time spent in relation to the sale of the business and liaising with potential purchasers,
- Preparation and circulation of sales pack,
- Time spent liaising with solicitors in respect of the sales contract,
- Insurance of assets,
- Liaising with Company in respect of trade debtors,
- Liaising with potential purchasers of the freehold property,
- Liaising with agents in respect of the marketing of the freehold property, and
- Liaising with landlords in respect of leasehold property

### **Creditors**

Time incurred here is in respect of dealing with the Company's creditors, including.

- Reporting to creditors, in particular notifying creditors of the appointment, preparing the Proposals, and preparing the Joint Administrators' Progress Report,
- Dealing with creditor enquiries and correspondence, this includes both written and verbal communications, and
- Issuing of standard letters and logging of claims

- 5 3 The Joint Administrators' time costs for the Period 22 November 2010 to 21 May 2011 are £118,416 This represents 367 hours at an average rate of £323 per hour. Attached as Appendix B is a Time Analysis for the Period which provides details of the activity costs incurred by staff grade.

- 5 4 To date no fees or disbursements have been drawn on account.

- 5 5 Attached as Appendix D, is additional information in relation to the Joint Administrators' policy on staffing, the use of sub-contractors, disbursements and details of their current charge-out rates by staff grade.



## **6 Estimated Outcome for Creditors**

### **Secured Creditor - Lloyds TSB Bank Plc**

- 6.1 The Company granted fixed and floating charges to the Bank on 15 December 2006 and 17 December 2009. At the date of the Joint Administrators' appointment the Bank was owed approximately £16.49 million (excluding interest and charges) under its security. To date, distributions of £0.95 million and £0.5 million, under the fixed and floating charges respectively, have been paid to the Bank. However, it is estimated that the secured creditor is likely to suffer a shortfall.

### **Preferential Creditors**

- 6.2 As previously advised, there are no preferential creditors in this matter by virtue of the employees transferring to Scotts under TUPE.

### **Unsecured Creditors' Fund**

- 6.3 Pursuant to Section 176A of the Insolvency Act 1986, where there is a floating charge which post dates 15 September 2003, the Joint Administrators are required to create a Prescribed Part from the Company's net property available for the benefit of unsecured creditors.
- 6.4 As the Company granted a floating charge to the secured creditor after 15 September 2003, the Joint Administrators are required to create an Unsecured Creditors Fund. The Joint Administrators can confirm that, based on realisations to date, the amount available for the Unsecured Creditors Fund is estimated to be approximately £150,000.

### **Unsecured Creditors**

- 6.5 Based on current information, unsecured creditors are anticipated to be approximately £846,143. The Joint Administrators currently anticipate that there will be insufficient funds to enable a dividend to be paid to the unsecured creditors of the Company other than by way of the Prescribed Part.

## **7 Ending the Administration**

- 7.1 Based on present information, the Joint Administrators still believe that a Prescribed Part dividend will be paid to the unsecured creditors. In this situation, the Joint Administrators will file a notice with the Registrar of Companies in order that the Administration will cease and the Company will move automatically into Creditors' Voluntary Liquidation (CVL). It is proposed that the Joint Administrators will also become the Joint Liquidators of the CVL.
- 7.2 The Joint Administrators will be discharged from liability under Paragraph 98 of Schedule B1 to the Insolvency Act 1986 immediately upon their appointment as Administrators ceasing to have effect.

## 8 Creditors' Rights

- 8.1 Within 21 days of the receipt of the report, a secured creditor, or an unsecured creditor (with the concurrence of at least 5% of the value of the unsecured creditors) may request in writing that the Joint Administrators provide further information about their remuneration or expenses (other than pre-Administration costs) which have been itemised in this progress report
- 8.2 Any secured creditor, or an unsecured creditor (with the concurrence of at least 10% of the value of unsecured creditors) may within eight weeks of receipt of this progress report make an application to court on the grounds that the basis fixed for the Joint Administrators' remuneration, the remuneration or the expenses incurred by the Joint Administrators as set out in this progress report are excessive.

## 9 Next Report

- 9.1 The Joint Administrators are required to provide a progress report within one month of the end of the next six months of the Administration or earlier if the Administration has been finalised.

For and on behalf of  
Scala Collections Limited



S C E Mackellar  
Joint Administrator

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# Receipts and Payments Account for the Period from 22 November 2010 to 21 May 2011

## Appendix A

Statement of Affairs (£)	22/11/2010 to 21/05/2011 (£)
<b>Fixed Realisations</b>	
1,750,000 00 Freehold Properties	750,000 00
256,000 00 Intellectual Property	256,000 00
1,000 00 Goodwill	1,000 00
255,000 00 Contracts & Databases	255,000 00
Bank Interest Gross	192 86
Purchaser Reimbursements	20,940 00
	<u>1,283,132 86</u>
<b>Fixed Costs</b>	
Legal Fees	63,187 40
Agents Fees	15,750 00
Professional Fees	12,260 50
Insurance of Assets	1,402 41
Irrecoverable VAT	1,968 75
(16,485,000 00) Lloyds Banking Group	951,573 94
Bank Charges	1 93
Security Costs	583 50
	<u>(1,046,728 43)</u>
<b>Floating Realisations</b>	
Purchaser Reimbursements	11,150 00
50,000 00 Equipment	50,000 00
1,638,000 00 Stock	1,638,000 00
Rates Refunds	5,498 93
Bank Interest Gross	239 53
	<u>1,704,888 46</u>
<b>Floating Costs</b>	
Legal Fees	33,750 00
Professional Fees	36,781 50
Irrecoverable VAT	5,906 25
(16,485,000 00) Lloyds Banking Group	500,000 00
(638,000 00) Stock Returns	638,000 00
Consultancy Fees	1,081 38
Joint Administrators' Pre-Appointment Disbursements	346 86
Pre-Appointment Legal Fees	15,000 00
Pre-Appointment Legal Disbursements	55 92
Statutory Advertising	75 60
Bank Charges	5 30
	<u>(1,231,002 81)</u>
<u>(29,658,000 00)</u>	<u>710,290.08</u>
<b>Balance in Hand</b>	
<b>MADE UP AS FOLLOWS</b>	
VAT Receivable - Fixed	16,968 53
VAT Payable - Fixed	(1,184 32)
VAT Receivable - Floating	9,361 76
Fixed Interest Bearing	220,620 22
Floating Interest Bearing	464,523 89
	<u>710,290.08</u>

## Time Analysis for the Period from 22 November 2010 to 21 May 2011 Appendix B

	Employee Grade (Hours)				Total Hours	(£'s)	
	Partner / Director	Senior Associate	Associate / Analyst	Jnr Analyst/ Support		Total Cost	Average Rate p/h
<b>Administration and Planning</b>							
Strategy and Control	16 7	22 4	27 5	0 0	66 6	25,937 00	389
Statutory Duties	0 2	0 1	14 6	0 4	15 3	4,444 00	290
Job Administration	0 0	4 1	19 9	2 2	26 2	7,679 00	293
Cash Accounting and Time Records	1 2	0 7	7 2	11 2	20 3	4,879 00	240
Internal Documentation and IT	0 0	0 5	7 4	0 0	7 9	2,462 00	312
<b>Investigations</b>							
D Reports	0 3	0 6	7 8	0 0	8 7	2,602 50	299
<b>Realisation of Assets - Fixed Charge</b>							
Initial Actions and Valuations	0 3	0 0	8 6	0 0	8 9	2,683 00	301
Sale of Assets	0 5	0 4	18 0	0 0	18 9	5,904 00	312
Insurance	0 0	0 0	0 5	0 0	0 5	152 50	305
Internal and External Documentation	0 0	0 4	13 3	0 0	13 7	4,220 50	308
<b>Realisation of Assets - Debtors</b>							
Debt Collection	0 0	0 0	14 6	0 0	14 6	4,453 00	305
Debtors Litigation	0 0	0 0	1 6	0 0	1 6	488 00	305
Crown Debtors	0 0	0 0	2 3	0 0	2 3	644 00	280
Internal and External Documentation	0 0	0 0	2 8	0 0	2 8	854 00	305
<b>Realisation of Assets - Floating Charge</b>							
Sale of Assets	0 2	18 4	14 7	0 0	33 3	12,035 00	361
Insurance	0 0	0 0	2 8	0 0	2 8	784 00	280
Retention of Title	0 0	0 0	0 9	0 0	0 9	252 00	280
Hire Purchase / Leased Assets	0 0	0 0	4 9	0 0	4 9	1,372 00	280
Litigation	0 0	0 2	0 0	0 0	0 2	82 00	410
Internal and External Communications	0 0	0 5	4 5	0 0	5 0	1,577 50	316
<b>Trading</b>							
Ongoing Trading Activities	0 0	11 1	0 0	0 0	11 1	4,551 00	410
<b>Creditors</b>							
Bank and Creditor Reporting	3 4	3 6	42 8	0 0	49 8	15,790 50	317
Creditor Dealings	0 6	0 3	43 6	0 0	44 5	12,798 50	288
Shareholders / Bankrupts	0 0	0 0	0 1	0 0	0 1	28 00	280
Employees	0 0	0 0	6 1	0 0	6 1	1,743 00	286
<b>Totals</b>	<b>23 4</b>	<b>63 3</b>	<b>266 5</b>	<b>13 8</b>	<b>367 0</b>	<b>118,416 00</b>	<b>323</b>

## Additional Information in Relation to the Joint Administrators' Fees Pursuant to Statement of Insolvency Practice 9

## Appendix C

### 1 Policy

Detailed below is Zolfo Cooper's policy in relation to:

- staff allocation and the use of sub-contractors,
- professional advisors, and
- disbursements

#### 1.1 Staff Allocation and the use of Sub-contractors

The Joint Administrators' general approach to resourcing their assignments is to allocate staff with the skills and experience to meet the specific requirements of the case

The constitution of the case team will usually consist of a Partner, a Senior Associate, an Associate and an Analyst. The exact constitution of the case team will depend on the anticipated size and complexity of the assignment and the experience requirements of the assignment. On larger, more complex cases, several staff at all grades may be allocated to meet the demands of the case. The Joint Administrators' charge out rate schedule below provides details of all grades of staff and their experience level

With regard to support staff, the Joint Administrators would advise that time spent by treasury in relation to specific tasks on an assignment is charged. Only if there is a large block of time incurred by a member of the secretarial team, e.g. report compilation and distribution, do the Joint Administrators seek to charge and recover their time in this regard.

The Joint Administrators have not utilised the services of any sub-contractors in this case.

#### 1.2 Professional Advisors

On this assignment the Joint Administrators have used the professional advisors listed below. The Joint Administrators have also indicated alongside, the basis of their fee arrangement with them, which is subject to review on a regular basis.

Name of Professional Advisor	Basis of Fee Arrangement
DLA Piper UK LLP (legal advice)	Hourly rate and disbursements
Willis Limited (insurance)	Risk based premium
Edward Symmons (valuation and disposal advice)	Hourly rate and disbursements

The Joint Administrators' choice was based on their perception of the professional advisors' experience and ability to perform this type of work, the complexity and nature of the assignment and the basis of their fee arrangement with them.

### 1.3 Disbursements

Category 1 disbursements do not require approval by creditors. The type of disbursements that may be charged as a Category 1 disbursement generally comprise of external supplies of incidental services specifically identifiable to the case, such as postage, case advertising, invoiced travel and external printing, room hire and document storage. Also chargeable will be any properly reimbursed expenses incurred by the Joint Administrators and their staff.

Category 2 disbursements do require prior approval by creditors before they are paid. If they are incurred, they will be drawn in accordance with the Joint Administrators' Proposals. Category 2 disbursements that may be incurred are as follows:

- Photocopying - charged at the rate of 10 pence per sheet for notifications and reports to creditors and other copying

## 2 Charge Out Rates

A schedule of Zolfo Cooper charge-out rates for this assignment effective from 1 January 2011 is detailed below.

Description	£
<b>Partner/Director*</b>	
Partner 1*	575
Partner 2*	520
Director	450
<b>Senior Associate</b>	
Senior Associate 1*	410
Senior Associate 2*	370
<b>Associate/Analyst</b>	
Associate	305
Analyst*	280
<b>Junior Analyst and Support Staff</b>	
Junior Analyst*	150
Senior Treasury Associate	220
Treasury Associate	150
Treasury Analyst	95
Support	80
<b>*Key</b>	
<i>Partner 1 - Partners with 3 or more years experience at partner level</i>	
<i>Partner 2 - Partners with less than 3 years experience at partner level</i>	
<i>Senior Associate 1 - Staff who have been Senior Associates for over 2 years</i>	
<i>Senior Associate 2 - Staff who have been Senior Associates for less than 2 years</i>	
<i>Analyst - Staff who have been Analysts for more than 1 year</i>	
<i>Junior Analyst - First year Analysts</i>	