

ARTIGIANO

SCALA ACQUISITIONS LIMITED

Company registration number 5977816

DIRECTOR'S REPORT AND FINANCIAL STATEMENTS

FOR THE 18 MONTH PERIOD ENDED 31 JULY 2009

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SCALA ACQUISITIONS LIMITED

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SCALA ACQUISITIONS LIMITED

COMPANY INFORMATION

Company registration number	5977816
Registered Office	Artigiano Design Centre Elm Lane Shalfleet Isle of Wight PO30 4JY
Website	www.artigiano.co.uk
Directors	J M Pilkington D B Hidson M S Morgan
Secretary	D B Hidson
Bankers	Lloyds TSB Bank plc 22 St Thomas Square Newport Isle of Wight PO30 1SQ
Auditors	Nexia Smith and Williamson Imperial House 18 – 21 Kings Park Road Southampton Hampshire SO15 2AT

SCALA ACQUISITIONS LIMITED

REPORT OF THE DIRECTORS FOR THE 18 MONTH PERIOD ENDED 31 JULY 2009

The directors present their report and the audited financial statements of the company for the 18 month period ended 31 July 2009

As set out in note 5 the company acquired Scala Collections Limited on 15 December 2006

Principal activities, business review and future prospects

The company's principal activity is to act as an intermediary holding company which will continue for the foreseeable future

The company's results are set out on page 6 and show the results for the period The Directors do not recommend the payment of a dividend

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

Directors

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

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	(resigned 27 July 2009)
P J Vann	(appointed 23 May 2008, resigned 27 June 2008)
C Coucher	(appointed 29 September 2008 resigned 5 November 2009)
J Pilkington	(appointed 22 June 2009)
M Morgan	(appointed 17 December 2009)
D Hidson	(appointed 21 December 2009)

Risk

The directors of Scala Holdings Limited, the company's immediate parent company manage the group's risk at a group level For this reason, the company's directors believe that a discussion of the group's risk would not be appropriate for an understanding of the development, performance or position of the company's business The principal risks and uncertainties of the group which include those of this company are discussed in the Scala Holdings Limited directors report which does not form part of this report

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

On behalf of the board



D B Hidson
Secretary
19 April 2010

SCALA ACQUISITIONS LIMITED

STATEMENT OF DIRECTORS RESPONSIBILITIES DIRECTORS FOR THE 18 MONTH PERIOD ENDED 31 JULY 2009

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
- 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 ACQUISITIONS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCALA ACQUISITIONS LIMITED

We have audited the accounts of Scala Acquisitions Limited for the period ended 31 July 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 16. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the 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 accounts 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 accounts.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 July 2009 and of its loss for the period then ended,
- the accounts have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the accounts.

Nexia Smith & Williamson

Nexia Smith and Williamson
Chartered Accountants and Registered Auditors
Southampton
19 April 2010

SCALA ACQUISITIONS LIMITED**PROFIT AND LOSS ACCOUNT****For the 18 month period ended 31 July 2009**

	Note	2009 78 week period £000	2008 66 week period £000
Administrative expenses		(1,843)	(68)
Exceptional item – impairment of investment		-	(14,135)
		<hr/>	<hr/>
Operating profit loss	2	(1,843)	(14,203)
Net interest and similar items	4	(3,074)	(2,895)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(4,917)	(17,098)
Taxation on loss from ordinary activities	5	-	-
		<hr/>	<hr/>
Loss for the financial period	11	(4,917)	(17,098)
		<hr/>	<hr/>

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 loss for the financial period

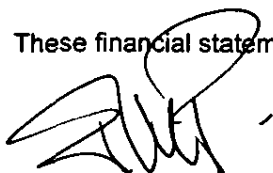
The notes on pages 7 to 13 form part of these accounts

SCALA ACQUISITIONS LIMITED

BALANCE SHEET (Company registration number 5977816) As at 31 July 2009

	Note	2009 78 week period £000	2008 66 week period £000
Fixed assets			
Investments	6	7,891	9,413
Current assets			
Debtors	7	844	2,961
Creditors: amounts falling due within one year	8	(1,775)	(486)
Net current assets		(931)	2,475
Total assets less current liabilities		6,960	11,888
Creditors: amounts falling due after more than one year	9	(7,856)	(28,501)
		(896)	(16,613)
Capital and reserves			
Called up share capital	10	1,128	485
Share Premium Account	11	19,991	-
Profit and loss account	11	(22,015)	(17,098)
Shareholders' funds		(896)	(16,613)

These financial statements were approved by the board of directors on 19 April 2010



J M Pilkington
Director



D B Hidson
Director

The notes on pages 7 to 13 form part of these accounts

SCALA ACQUISITIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the 18 month period ended 31 July 2009

1. Summary of significant accounting policies

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

Basis of preparation

The 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 16 December 2009, the group concluded renegotiations of its banking facilities, which are now in place at least up to their next scheduled renewal date on 31 September 2013 subject to ongoing compliance with agreed terms, conditions and covenants

The directors have undertaken a detailed review of expected trading performance 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 very 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 facilities and recalling its loan which stood at £4,300,000 and £9,500,000 respectively as at the date of approval of these financial statements

Cash flow statement

Scala Acquisitions Limited is a wholly owned subsidiary of Scala Holdings Limited, a company incorporated in the United Kingdom, which produces a consolidated cash flow statement in accordance with Financial Reporting Standard 1 (FRS1) revised. Consequently the company has taken advantage of the exemption in FRS 1 revised from producing a cash flow statement in these financial statements

Basis of consolidation

Consolidated financial statements have not been prepared as permitted by section 228 of the Companies Act 1985 as the company's ultimate parent, Scala Holdings Limited, is incorporated in Great Britain and prepares group financial statements. These financial statements contain information about Scala Acquisitions Limited as an individual company and do not contain consolidated financial information

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

Valuation of investment

1. Investments held as fixed assets are stated at cost less any provision for permanent impairment in value

SCALA ACQUISITIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 18 month period ended 31 July 2009

Costs of raising finance

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

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.

2. Operating profit on ordinary activities before taxation

Auditor's remuneration is borne by Scala Collections Limited

3. Staff Numbers

Average number of full time employees of the company during the period was nil. The average remuneration of employees of the company during the period was nil.

4. Net interest and similar items

	2009 78 week period £000	2008 66 week period £000
Bank loan interest and charges	1,866	1,231
Loan note interest	855	1,635
Amortisation of finance costs	353	256
Interest receivable and similar income from group undertakings	-	(227)
	<hr/>	<hr/>
	3,074	2,895
	<hr/>	<hr/>

Finance costs of £1,842,000 have been capitalised and amortised at a constant rate on the carrying value of the loan.

SCALA ACQUISITIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 18 month period ended 31 July 2009

5. Tax on profit on ordinary activities

No provision for current or deferred taxation was required for the period

Factors affecting the tax charge for the year

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

	2009 78 week period £000	2008 66 week period £000
Loss on ordinary activities before tax	(4,917)	(17,098)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28 22%	(1,388)	(5,129)
Effects of		
Group Relief surrendered for nil consideration	-	465
Unrelieved tax loss and other deductions arising in the period	837	404
Expenses not deductible for tax purposes	551	4,260
Current tax charge for the period	-	-

6. Intangible fixed assets - Investments

	£000
Cost	
At 31 January 2008 and 31 July 2009	23,548
Amortisation	
At start of year	14,135
Provided in the period	1,523
At 31 July 2009	15,658
Net Book Value at: 31 July 2009	7,891
Net Book Value at 31 January 2008	9,413

SCALA ACQUISITIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the 18 month period ended 31 July 2009**

Intangible fixed assets - Investments (continued)

On 15 December 2006 the company acquired the entire share capital of Scala Collections Limited, a company registered in England. This company's principal business is the sale of Italian styled ladies clothing and accessories through internet and catalogue channels under the brand names of Artigiano and Spirito di Artigiano.

7. Debtors

	2009	2008
	£000	£000
Amounts owed by group undertakings		
– Scala Holdings Limited	2	2
– Scala Collections Limited	841	2,952
Other debtors	-	7
	<hr/>	<hr/>
	843	2,961
	<hr/>	<hr/>

All amounts shown under debtors fall due for payment within one year. Amounts owed by group undertakings are interest free, unsecured and have no fixed date for repayment.

8. Creditors: amounts falling due within one year

	2009	2008
	£000	£000
Bank loans and overdrafts	1,775	483
Trade creditors	-	3
	<hr/>	<hr/>
	1,775	486
	<hr/>	<hr/>

9. Creditors: amounts falling due after more than one year

	2009	2008
	£000	£000
Bank loans	7,856	11,366
Other loans	-	15,552
Accrued interest on other loans	-	1,583
	<hr/>	<hr/>
	7,856	28,501
	<hr/>	<hr/>

SCALA ACQUISITIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 18 month period ended 31 July 2009

Maturity of debt – Bank Loans	2009 £000	2008 £000
In less than one year	648	483
In more than one year but not more than two years	648	648
In more than two years but not more than five years	5,366	5,366
More than five years	1,742	5,352
	<hr/>	<hr/>
	8,404	11,849
Included in current liabilities	(648)	(483)
	<hr/>	<hr/>
	7,756	11,366
	<hr/> <hr/>	<hr/> <hr/>
 Maturity of debt – Other Loans	 2009 £000	 2008 £000
In less than one year	-	-
In more than one year but not more than two years	-	-
In more than two years but not more than five years	-	-
More than five years	-	15,552
	<hr/>	<hr/>
	-	15,552
Included in current liabilities	-	-
	<hr/>	<hr/>
	-	15,552
	<hr/> <hr/>	<hr/> <hr/>

The bank loans bear interest at LIBOR plus 3% to 10% and are secured against the group's assets

The bank loans and loan notes are shown net of finance costs of £1,018,000 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 £353,000.

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

Loan notes amounting to £15,552,000 and accrued interest £2,438,000 were either converted to 238,163 Ordinary Shares of £1 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 £1 each. Revised terms, a new repayment schedule and extended overdraft and ancillary facilities were agreed for the remaining £9,900,000 of the facility.

On 17 December 2009 the group renegotiated its banking facilities agreeing a maximum working capital facility of £5.1 million and a term loan of £9.5 million.

SCALA ACQUISITIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the 18 month period ended 31 July 2009

10. Share capital

	2009 £000	2008 £000
Authorised 1,127,850 (2008 485,000) ordinary shares of £1 each	1,128	485
Allotted, called up and fully paid 1,127,850 (2008 485,000) ordinary shares of £1 each	1,128	485

On 5 September 2008 the company increased its authorised share capital to £1,127,850, comprising 723,165 £1 ordinary A shares and 404,685 £1 ordinary B shares

On the same day 238,165 £1 ordinary A shares and 404,685 £1 ordinary B shares were issued. The consideration for these shares was a £3m reduction in the company's borrowing facilities.

The ordinary A and B shares rank *par passu* and carry the rights associated with ordinary share capital.

11. Reserves

	Share Capital £000s	Share Premium £000s	Profit & loss account £000s	Total capital & reserves £000s
At start of period	485	-	(17,098)	(16,613)
Loss for the period			(4,917)	(4,917)
Share restructuring	643	20,206	-	20,849
Restructuring fees		(215)	-	(215)
At 31 July 2009	1,128	19,991	(22,015)	(896)

12. Reconciliation of movements in shareholders' funds

	2009 £000	2008 £000
Loss for the financial period (2008 year)	(4,917)	(17,098)
Shares issued at nominal value	643	485
Share premium	20,206	-
Share issues costs	(215)	-
Net movement on shareholders funds	15,717	(16,613)
Shareholders funds at start of financial period (2008 year)	(16,613)	-
Shareholders' funds at the end of the financial period (2008 year)	(896)	(16,613)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the 18 month period ended 31 July 2009

13. Contingent liabilities

Along with fellow group companies, Scala Holdings 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 £9,522,041.

The only derivative financial instrument entered into during the period by the company was 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.

14. Related Party Transactions

There were no related party transactions in the period.

15. Ultimate parent company

At 31 July 2009 the company's immediate and ultimate parent was Scala Holdings Limited which was also the smallest and largest group which consolidates results of the company. These financial statements can be obtained from the Company Secretary at the Registered Office.

As at the date of approval of these accounts no one party had a controlling interest in the shares of Scala Holdings Limited.

16. Post Balance Sheet Event

On 17 December 2009, the group concluded renegotiations of its banking facilities, which are now in place at least up to their next scheduled renewal date in November 2013.

This new agreement has increased the Group's working capital facility by £839,000 and deferred all capital repayments of the term loan until November 2013. The Bank loans bear interest at LIBOR + 3.5% and are secured against the group's assets.