Grant Thornton

Financial statements Lilestone Holdings Limited

For the Year Ended 30 September 2009

Company No. 05551556

Officers and professional adviers

Company registration number	05551556
Registered office	1-6 Clay Street Westminster LONDON W1U 6DA
Directors	C Allner S Llewellyn C Gabbay
Auditor	Grant Thornton UK LLP Chartered Accountants Statutory Auditor Grant Thornton House Melton Street Euston Square London NW1 2EP

Contents

Report of the directors

The directors present their report and the financial statements of the group for the year ended 30 September 2009

Principal activities and business review

The principal activity of the company during the year was that of a holding company The principal activity of the subsidiaries is that of designing, wholesaling and retailing lingerie and ladies lifestyle products and accessories

Despite the testing retail environment, the company maintained progress towards establishing Myla as an international luxury brand

Key performance indicators

During the year sales have increased marginally which is encouraging considering the continuing difficult retail environment Operating costs have however also increased by a small amount and the operating loss for 2009 is 1% worse than the prior year

Key risks and uncertainties

The continued economic uncertainties necessarily have an impact on consumer confidence and behavior Even Myla's customers are not immune The timescale to achieving profitability is therefore partially dependent on the global financial recovery

Future developments

For the financial year ending 30 September 2010, the business has taken stock of its store portfolio and closed loss making stores at Kildare, Bluewater and Walton Street , London SW3 This has enabled a refocus on the existing profitable stores with the aim of materially increasing contributions from across the business In addition work is being done on the website usability and search optimization which is expected to increase it's turnover in the coming years

Going concern

A fund raising process has taken place in summer of 2010 and additional funds of £2 1m have been received from the shareholders Certain shareholders have also pledged their continuing support to meet the working capital requirements of the Group as and when they fall due In addition, subsequent further capital injections are anticipated before the end of 2010

Results and dividends

The loss for the year amounted to £2,887,194 (2008 £2,947,113) The directors have not recommended a dividend (2008 £nil)

Financial risk management objectives and policies

The group uses various financial instruments including loans, cash, equity investments and various items such as trade debtors and creditors that arise directly from its operations The main purpose of these financial instruments is to raise finance for the group's operations

Report of the directors

The main risks arising from the group's financial instruments are currency risk interest rate risk, credit risk and liquidity risk The directors review and agree policies for managing each of these risks and they are summarised below These policies remain unchanged from previous years

Currency risk

The group is exposed to translation and transaction foreign exchange risk Transaction exposures, including those associated with forecast transactions, are hedged using forward currency contracts

Some of the sales and purchases made by the group are in Euros and US Dollars The group reviews the net exposure and seeks to hedge against it in order to add a degree of certainty to the cost in sterling terms

Liquidity risk

The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably The group policy throughout the year has been to ensure continuity of funding through equity financing and long term debt and to manage working capital requirements through agreeing longer credit terms with suppliers The group keeps the level of its short term requirements under constant review to ensure sufficient funding is available to meet upcoming requirements

Interest rate risk

The group applies a floating rate policy for all funding currencies It is the group's understanding that a short term interest rate adjustment term leads to lower funding costs over the long term

Credit risk

The company's principal financial assets are trade debtors In order to manage credit risk the directors set limits for customers based on a combination of payment history, third party credit references and anticipated turnover Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt aging and collection history For the year ending 30 September 2009, no customer represented more than 5% of the company's total turnover

Report of the directors

Directors

The directors who served the company during the year were as follows

D Gestetner (resigned as director 23 Sepetmber 2010)
L Gestetner (resigned as director 25 March 2010)
C Allner
S Llewellyn
C Gabbay
Y Tsakiris (appointed as director on 8 December 2008, resigned as director 30 April 2010)
M Ellis (resigned as director on 30 January 2009)
T Bennett (resigned as director 30 November 2009)

R Arlington was appointed as director on 30 November 2009 and resigned on 20 July 2010

Policy on the payment of creditors

The company policy is to settle trade creditors in accordance with agreed payment terms The average creditor days at 30 September 2009 were 82 days (2008 63 days)

Report of the directors

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that year In preparing these 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 UK 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 group will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities In so far as the directors are aware

- there is no relevant audit information of which the group's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Auditor

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006

ON BEHALF OF THE BOARD

C Allner
Director

Date 29 September 2010

Report of the independent auditor to the members of Lilestone Holdings Limited

We have audited the financial statements of Lilestone Holdings Limited for the year ended 30 September 2009 which comprise the group profit and loss account, the group and parent company balance sheets, the group cash flow statement, the group statement of total recognised gains and losses, the group and the parent company related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 September 2009 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Report of the independent auditor to the members of Lilestone Holdings Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Grant Thornton UK LLP

Mark Henshaw
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor, Chartered Accountants
London

29 September 2010

Accounting policies

Basis of accounting

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

Basis of preparation

The financial statements have been prepared on a going concern basis In adopting this basis for preparation, the directors have considered a number of factors that have included the current cash position of the group, its budgets and projections, the steps that might be taken to raise additional finance and the ability of the group to manage its cost base

A fund raising process has taken place in summer of 2010 and additional funds of £2 1m have been received from the shareholders Certain shareholders have also pledged their continuing support to meet the working capital requirements of the Group as and when they fall due In addition, subsequent further capital injections are anticipated before the end of 2010

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings These are adjusted, where appropriate, to conform to group accounting policies As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of s408 of the Companies Act 2006

Turnover

The turnover shown in the profit and loss account represents amounts due for the goods sold in the year, exclusive of Value Added Tax Wholesale turnover is recognised on the date of despatch and retail turnover is recognised on the date of sale

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Goodwill	-	Over 20 years

Fixed assets

All fixed assets are initially recorded at cost

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Leasehold property	-	Over twelve years
Fixtures and fittings	-	Over five years
Equipment	-	Over five years

Stocks

Stock is valued at the lower of costs and net realisable value A FIFO basis is used and adjusted where necessary for obsolete stock adjustments

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease

Rent incentives are spread over the start of the incentive period to the earliest rent review

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction Exchange differences are taken into account in arriving at operating profit

The balance sheet of overseas subsidiaries are translated at the rate of exchange ruling at the balance sheet date The profit and loss accounts of overseas subsidiaries are translated at the average rate of exchange for the financial year Amy exchange gains and losses arising on the retranslation of opening net assets and arising as a result of differences between the average and the year end exchange rates are shown in the Statement of Total Recognised Gains and Losses

Share-based payments

The group issues equity-settled share-based payments to certain employees (including directors) Equity-settled share-based payments are measured at fair value at the date of grant The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the group's estimate of the shares that will eventually vest

Fair value is measured using the Black Scholes Option Pricing Model The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

Group profit and loss account

	Note	2009 £	2008 £
Group turnover	1	**5,674,650**	5,490,461
Cost of sales		**(2,069,077)**	(1,831,022)
Gross profit		**3,605,573**	3,659,439
Other operating charges	2	**(6,436,614)**	(6,583,184)
Other operating income	3	**–**	7,951
Operating loss	4	**(2,831,041)**	(2,915,794)
Interest receivable		**4,057**	12,039
Interest payable and similar charges	7	**(114,079)**	(103,503)
Loss on ordinary activities before taxation		**(2,941,063)**	(3,007,258)
Tax on loss on ordinary activities	8	**–**	–
Loss on ordinary activities after taxation		**(2,941,063)**	(3,007,258)
Minority interests		**53,869**	60,145
Loss for the financial year	22	**(2,887,194)**	(2,947,113)

All of the activities of the group are classed as continuing

The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Profit and Loss Account

Group balance sheet

	Note	2009 £	2008 £
Fixed assets			
Intangible assets	10	**445,365**	472,515
Tangible assets	11	**874,091**	537,782
		1,319,456	1,010,297
Current assets			
Stocks	13	**806,616**	1,079,903
Debtors	14	**812,370**	832,966
Cash at bank		**314,462**	1,133,375
		1,933,448	3,046,244
Creditors amounts falling due within one year	15	**(2,613,578)**	(2,113,785)
Net current assets		**(680,130)**	932,459
Total assets less current liabilities		**639,326**	1,942,756
Creditors. amounts falling due after more than one year	16	**(1,910,000)**	(1,100,136)
		(1,270,674)	842,620
Minority interests		**471,010**	436,213
		(799,664)	1,278,833
Capital and reserves			
Called-up equity share capital	20	**5,864**	6,395
Share premium account	21	**9,063,821**	8,362,990
Profit and loss account	22	**(9,869,349)**	(7,090,552)
Shareholders' (deficit)/funds	23	**(799,664)**	1,278,833

These financial statements were approved by the directors and authorised for issue on , and are signed on their behalf by

C Allner
Director

Balance sheet

	Note	2009 £	2008 £
Fixed assets			
Investments	12	**926,579**	926,579
Current assets			
Debtors	14	**9,761,464**	7,628,575
Cash at bank		**206,812**	771,632
		9,968,276	8,400,207
Creditors: amounts falling due within one year	15	**(305,980)**	(155,668)
Net current assets		**9,662,296**	8,244,539
Total assets less current liabilities		**10,588,875**	9,171,118
Creditors amounts falling due after more than one year	16	**(1,910,000)**	(1,100,796)
		8,678,875	8,070,322
Capital and reserves			
Called-up equity share capital	20	**5,864**	6,395
Share premium account	21	**9,063,821**	8,362,990
Profit and loss account	22	**(390,810)**	(299,063)
Shareholders' funds		**8,678,875**	8,070,322

These financial statements were approved by the directors and authorised for issue on , and are signed on their behalf by

C Allner
Director

Group statement of total recognised gains and losses

	2009 £	2008 £
Loss for the financial year	**(2,887,194)**	(2,947,113)
Exchange gains on translation of overseas subsidiary	84,800	18,340
Total losses recognised for the year	(2,802,394)	(2,928,773)

Group cash flow statement

	Note	2009 £	2008 £
Net cash outflow from operating activities	24	**(1,698,569)**	(2,773,957)
Returns on investments and servicing of finance	24	**(110,022)**	(91,464)
Capital expenditure and financial investment	24	**(519,826)**	(287,494)
Cash outflow before financing		**(2,328,417)**	(3,152,915)
Financing	24	**1,509,504**	3,827,376
(Decrease)/increase in cash	24	**(818,913)**	674,461

Notes to the financial statements

1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the group
An analysis of turnover is given below

	2009 £	2008 £
United Kingdom	4,347,557	4,238,677
Overseas	1,327,093	1,251,784
	5,674,650	5,490,461

2 Other operating charges

	2009 £	2008 £
Distribution costs	1,138,509	803,215
Administrative expenses	5,298,105	5,779,969
	6,436,614	6,583,184

3 Other operating income

	2009 £	2008 £
Insurance rebate	–	7,951

4 Operating loss

Operating loss is stated after charging/(crediting)

	2009 £	2008 £
Directors' emoluments	**328,876**	40,000
Amortisation	**27,150**	28,572
Depreciation of owned fixed assets	**184,414**	137,814
Loss on disposal of fixed assets	–	3,630
Auditor's remuneration		
Audit fees	**19,792**	26,120
Audit fees paid to associate of auditor	**8,700**	8,700
Other fees paid to auditor	**9,000**	6,000
Operating lease costs		
Other	**587,755**	585,356
Net profit on foreign currency translation	**(81,480)**	(2,083)

5 Particulars of employees

The average number of staff employed by the group during the financial year amounted to

	2009 No	2008 No
Number of administrative staff	91	82
Number of management staff	2	2
	93	84

The aggregate payroll costs of the above were

	2009 £	2008 £
Wages and salaries	2,823,966	2,350,152
Social security costs	205,235	198,693
Equity-settled share-based payments	23,798	25,445
	3,052,999	2,574,290

6 Directors

Remuneration in respect of directors was as follows

	2009 £	2008 £
Emoluments receivable	328,876	40,000

The highest paid Director received £168,000 (2008 £153,000) during the year

7 Interest payable and similar charges

	2009 £	2008 £
Interest payable on bank borrowing	114,079	103,503

8 Taxation on ordinary activities

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 28% The differences are explained below

	2009 £	2008 £
Loss on ordinary activities before taxation	(2,941,063)	(3,007,258)
Loss on ordinary activities by rate of tax	(823,498)	(842,032)
Expenses not deductible for tax purposes	86,981	73,405
Capital allowances for period in excess of depreciation	25,759	33,987
Other tax adjustments	710,758	734,640
Total current tax	-	-

9 Loss attributable to members of the parent company

The loss dealt with in the accounts of the parent company was £115,545 (2008 - £126,311)

10 Intangible fixed assets

Group	Goodwill £
Cost	
At 1 October 2008 and 30 September 2009	557,223
Amortisation	
At 1 October 2008	84,708
Charge for the year	27,150
	111,858
Net book value	
At 30 September 2009	**445,365**
At 30 September 2008	472,515

11 Tangible fixed assets

Group	Leasehold property £	Fixtures & fittings £	Equipment £	Total £
Cost				
At 1 October 2008	53,453	685,295	173,765	912,513
Exchange movements	(6,147)	(58,057)	97,365	33,161
Additions		362,175	157,651	519,826
At 30 September 2009	47,306	989,413	428,781	1,465,500
Depreciation				
At 1 October 2008	16,621	293,795	64,315	374,731
Exchange movements	(460)	7,729	18,911	26,180
Charge for the year	2,883	156,573	31,042	190,498
At 30 September 2009	19,044	458,097	114,268	591,409
Net book value				
At 30 September 2009	**28,262**	**531,316**	**314,512**	**874,091**
At 30 September 2008	36,832	391,500	109,450	537,782

12 Investments

Company

	Group companies £
Cost and net book value	
At 1 October 2008 and 30 September 2009	926,579

Subsidiary undertakings

The company holds more that 20% of the share capital of the following companies

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Lilestone plc	England	Ordinary shares	98%	Retailer of ladies lifestyle products
Myla Investments Limited	Ireland	Ordinary shares	98%	Retailer of ladies lifestyle products
Myla Inc	USA	Ordinary shares	98%	Retailer of ladies lifestyle products
Myla Limited	England	Ordinary shares	98%	Dormant

	Net liabilities £	Loss for the year £
Lilestone plc	(8,982,176)	(2,514,736)
Myla Investments Limited	(330,852)	(286,531)
Myla Inc	(364,028)	(247,389)
Myla Limited	-	-

13 Stocks

	The group 2009 £	The group 2008 £	The company 2009 £	The company 2008 £
Finished goods	806,616	1,079,903	–	–

14 Debtors

	The group 2009 £	The group 2008 £	The company 2009 £	The company 2008 £
Trade debtors	175,529	216,494	–	–
Amounts owed by group undertakings	–	–	9,761,464	7,628,575
Other debtors	275,430	249,923	–	–
Prepayments and accrued income	361,411	366,549	–	–
	812,370	832,966	9,761,464	7,628,575

15 Creditors: amounts falling due within one year

	The group 2009 £	The group 2008 £	The company 2009 £	The company 2008 £
Bank loans	90,000	90,660	–	–
Trade creditors	1,518,696	1,362,923	–	–
Other taxation	437,953	115,175	–	633
Other creditors	5,570	118,434	–	–
Accruals and deferred income	561,359	426,593	305,980	155,035
	2,613,578	2,113,785	305,980	155,668

16 Creditors: amounts falling due after more than one year

	The group 2009 £	The group 2008 £	The company 2009 £	The company 2008 £
Debenture loans	1,910,000	1,100,136	1,910,000	1,100,796

17 Share-based payments

Equity-settled share-based payments

During the year the company had six directors/shareholders share option schemes falling within the scope of FRS 20 All share options under these schemes have been granted over issued shares held in the company The options were granted with a fixed exercise price There are no other conditions attached to the options Options were valued using the Black-Scholes option pricing model The expected volatility is based on an approximation thereto The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

17 Share-based payments (continued)

The fair values of the incentives and the assumptions used in the valuations are set out below

Grant date	1/10/06	1/10/06	12/06/07	1/5/07	1/5/07	5/4/07
Number of options granted	150,000	40,000	300,000	192,188	47,500	93,546
Share price at date of grant	£2	£2	£2	£2	£2	£2
Exercise price	£0 66	£1 60	£0	£2	£2	£2
Vesting date (*)	4	2	0	0	2	3
Expected life	4 yrs	2 yrs	1 yrs	1 yrs	2 yrs	3yrs
Expected volatility	5%	5%	5%	5%	5%	5%
Risk free interest rate	4 5%	4 5%	4 5%	4 5%	4 5%	4 5%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Fair value per option	£0 63	£0 09	£0 96	£0 00	£0 00	£0 01

* A vesting period of 3 years has been assumed on these shares They are valid until the group is sold

The group recognised total expenses of £23,798 (2008 £25,445) related to equity settled share based payment transactions during the year Within this balance, £23,596 (2008 £23,596) relates to a charge in respect of share options held by Brands etc LLP, an entity controlled by L Gestetner and D Gestetner, directors of the company

18 Commitments under operating leases

At 30 September 2009 the group had annual commitments under non-cancellable operating leases as set out below

The group

	2009 Land and buildings £	2008 Land and Buildings £
Operating leases which expire		
Within 1 year	**313,000**	224,181
Within 2 to 5 years	**44,519**	215,775
After more than 5 years	-	-
	357,519	439,956

19 Related party transactions

During the year, the group incurred fees and expenses for consulting services of £175,991 (2008 £153,000) to Brands etc LLP, an entity controlled by L Gestetner and D Gestetner, directors of the company

During the year, the group paid Octopus Investments Limited and Duet Private Equity Limited £Nil (2008 £15,000) and £Nil (2008 £18,000) respectively in respect of fees for their nominated directors These companies are related by virtue of common directors

During the year, the group paid C Gabbay, a director of the company £22,000 (2008 £15,000) in respect of director services

20 Share capital

Group and company

Authorised share capital

	2009	2008
	£	£
10,000,000 Ordinary shares of £0 001 each	**10,000**	10,000

Allotted and called up

	2009		2008	
	No	£	No	£
Ordinary shares of £0 001 each	**5,864,000**	**5,864**	6,395,000	6,395

During the year, the company issued 350,000 £0 001 shares at a premium of £1 999 per share A clerical error relating to shares issued in the prior year was also reversed, requiring an adjustment of £881 to share capital and £1,181 to share premium

21 Share premium account

Group and company

	2009	2008
	£	£
Balance bought forward	**8,362,990**	5,638,467
Premium on shares issued in the year	**700,831**	2,797,850
Share issue expenses	-	(73,328)
Balance carried forward	**9,063,821**	8,362,990

22 Reserves

Group

	Profit and loss account
	£
At 1 October 2008	**(7,090,552)**
Loss for the year	**(2,887,194)**
Exchange rate movement	**84,599**
Movement in share option reserve	**23,798**
At 30 September 2009	**(9,869,349)**

Company

	Profit and loss account
	£
At 1 October 2008	**(299,063)**
Loss for the year	**(115,545)**
Movement in share options reserve	**23,798**
At 30 September 2009	**(390,810)**

23 Reconciliation of movements in shareholders' funds

Group

	2009 £	2008 £
Loss for the financial year	(2,887,194)	(2,947,113)
Proceeds from issue of new share capital	700,300	2,800,568
Share issue expenses	-	(73,328)
Foreign exchange movement	84,599	-
Movement in share options reserve	23,798	25,445
Net reduction to shareholders' funds	(2,078,497)	(194,428)
Opening shareholders' funds	1,278,833	1,473,261
Closing shareholders' (deficit)/funds	(799,664)	1,278,833

Company

	2009 £	2008 £
Loss for the financial year	(115,545)	(126,311)
Proceeds from issue of new share capital	700,300	2,800,568
Share issue expenses	-	(73,328)
Movement in share options reserve	23,798	25,445
Net addition to shareholders' funds	608,553	2,626,374
Opening shareholders' funds	8,070,322	5,443,948
Closing shareholders' funds	8,678,875	8,070,322

24 Notes to the statement of cash flows

Reconciliation of operating loss to net cash outflow from operating activities

	2009 £	2008 £
Operating loss	**(2,831,041)**	(2,915,794)
Amortisation	**27,150**	28,572
Depreciation	**190,498**	137,814
Loss on disposal of fixed assets	-	3,630
Increase in stocks	**273,287**	(350,941)
Increase in debtors	**20,596**	(78,222)
Increase in creditors	**500,453**	393,879
Foreign exchange movement	**96,690**	(18,340)
Equity-settled share-based payments	**23,798**	25,445
Net cash outflow from operating activities	**(1,698,569)**	(2,773,957)

24 Notes to the statement of cash flows (continued)

Returns on investments and servicing of finance

	2009 £	2008 £
Interest received	**4,057**	12,039
Interest paid	**(114,079)**	(103,503)
Net cash outflow from returns on investments and servicing of finance	**(110,022)**	(91,464)

Capital expenditure and financial investment

	2009 £	2008 £
Payments to acquire tangible fixed assets	**(519,826)**	(287,494)

Financing

	2009 £	2008 £
Net proceeds from issue of equity share capital	**700,300**	2,727,240
Increase in debenture loans	**809,864**	1,100,136
Repayment of bank loans	**(660)**	-
Net cash (outflow)/inflow from financing	**(1,509,504)**	3,827,376

Reconciliation of net cash flow to movement in net debt

	2009 £	2008 £
(Decrease)/increase in cash in the year	**(818,913)**	674,461
Net cash inflow from debenture loans	**(809,864)**	(1,100,136)
Net cash outflow from bank loans	**660**	
Change in net funds	**(1,628,117)**	(425,675)
Net (debt)/funds at 1 October	**(57,421)**	368,254
Net (debt)/funds at 30 September	**(1,685,538)**	(57,421)

24 Notes to the statement of cash flows (continued)

Analysis of changes in net debt

	At 1 Oct 2008 £	Cash flows £	At 30 Sep 2009 £
Net cash			
Cash in hand and at bank	1,133,375	(818,913)	314,462
Overdrafts	(90,660)	660	(90,000)
Debt			
Debt due within 1 year	1,042,715	(818,253)	224,462
Debt due after 1 year	(1,100,136)	(809,864)	(1,910,000)
Net debt	(57,421)	(1,628,117)	(1,685,538)