

LOFT SHOP LTD

VALUATION REPORT



Loft Shop - Trademark

Issue Date: 06-Dec-09

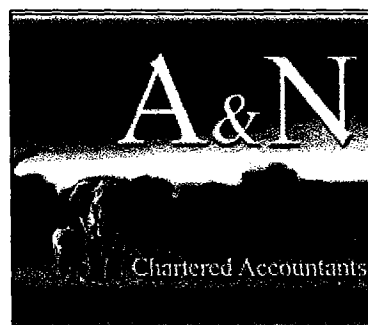
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LOFT SHOP VALUATION REPORT

The assignment

We have been asked to prepare a valuation for the trademark 'Loft Shop' owned and used by The Loft Shop Limited and its subsidiaries.

We have also been asked to provide a valuation for The Loft Shop Limited. The Loft Shop Limited is the holding company of Chimney Cows Ltd, RW Products Ltd, Stairplace Ltd and The Loft Centre Ltd (non-trading).

We have not carried out an audit or any verification of the information reviewed and used by us in this assignment, however we have made use of financial statements that were audited by a third party whilst compiling the information used to prepare this report.

The terms of our engagement are included in our letter of engagement see Appendix E.

Scope of our work and methods used

We have held interviews with management and reviewed historic data for the Loft Shop extending back to 1996.

We have extracted and analysed data from statutory accounts to derive 'normalised' average cash flow per annum for The Loft Shop Ltd (consolidated). We have compared the results to The Loft Shop Ltd (non-consolidated) to consider the effect of the Loft Shop trademark in isolation to other group operations.

We have further discussed in depth the workings of the group to arrive at the assumptions necessary to isolate the value of operations attributable to the trademark. In so doing we have reviewed the results in comparison to larger competitors in the market.

We prepared discounted net present value calculations based on the average normalised cash flow determined.

Comparing break up analysis with current value of net assets and including the intangible net operations valuation we were able to arrive at a valuation for the operation of the whole group.

We were not asked to consider the valuation of the other trademark used – Colt Cows. This is used by one of the subsidiaries (Chimney Cows Limited). The net value of operations includes the goodwill attributable to both trademarks. In order to complete the assignment we have made the assumption that it is possible to isolate the value attributable to Loft Shop trademark proportionally based on the turnover related to subsidiaries versus turnover related to The Loft Shop Ltd (not including subsidiaries). It has been

LOFT SHOP VALUATION REPORT

deemed that this is a fair approach as the net added value by the subsidiaries is largely related to that of Chimney Cows Ltd.

Following discussions with management and review of historical performance we have also assumed that the Loft Shop trademark is more valuable to the group because it has a higher profile and is easily recognisable. In many of the web search engines we found that it appeared higher on the first page than related businesses.

The difference in the operations from the trademarks is that more labour related work and hence a higher gross profit margin should be attributable to TheLoft Shop than with other operations. However, it was not possible within the scope of the work done to determine this effectively and therefore the proportional turnover basis was adopted.

The average percentage of turnover attributable to the subsidiaries amounts to 30.99%. See Appendix D.

The scope of our work did not include verification of the underlying data in any form. However, the information concerning Loft Shop Limited in isolation from the subsidiaries for the years 2004 to 2008, was provided to us directly from the auditors.

We were provided with historic statutory data by the directors and were able to trace the existence and registration of the Loft Shop trademark through the Intellectual Property Office.

See Appendix F for a list of information and documents we have been provided with and reviewed in the preparation of this report.

THE LOFT SHOP LIMITED AND ITS SUBSIDIARIES

VALUATION

	£000
The break-up valuation is negative.	
Total net liabilities	-83
One needs to take into account non-cancellable lease commitments	-258
Overall value	-341

In fact this may not be prudent enough a figure because the break-up assumption has taken a view that creditors may not be settled in full.

	£000
Current Value Basis	13
See appendix A	

The valuation of net operations provides a valuation for goodwill which comprises in fact three things:

- 1) Goodwill attributable to the Loft Shop Enterprise
- 2) Trademark value attributable to Loft Shop
- 3) Trademark value attributable to Colt Cows

During analyses and review of the historic trends and discussion with management it is clear that the goodwill attributable to the Loft Shop Enterprise itself will be very low. This is corroborated by the exercise carried out by the group in setting up RW Ltd which was basically the same enterprise in a different geographical location without the advantage of the Loft Shop trademark. This did not stabilise and the operation has been accepted as a failure and will be discontinued.

It is therefore assumed that the intangible value derived for the group (see appendix B) of £409K is part Loft Shop trademark and part Colt Cows trademark and part terminal value which is a measure of the assets and residual value on termination.

Conclusion:	£000
Total valuation of the business:	13
Included within this figure the worth of the intangibles	390
The worth of the intangibles is proportioned:	
30% Chimney Cows	117
70% Loft Shop	273
	390



LOFT SHOP VALUATION REPORT

The purpose of the valuation

We have been asked to prepare a valuation for the trademark 'Loft Shop' owned and used by The Loft Shop Limited and its subsidiaries.

We have also been asked to provide a valuation for The Loft Shop Limited, listed below with its subsidiaries and registered numbers:

The Loft Shop Ltd	797762
The Loft Centre Ltd	2128335
Chimney Cows Ltd	3291538
Preceda Shingles Ltd	3291581
RW Products Ltd	5170207
Stairplace Ltd	2775833

The purpose of the valuations is to arrive at a fair value for the trademark which is to be purchased from Loft Shop Limited by a pension scheme, the trustees of which include Mr Stedman and his family members.

The purpose of the valuation of The Loft Shop Limited is to arrive at a fair value for the shares to be purchased by a company set up by Mr Stedman with a view to refinancing the operations and improving trading results.

Disclaimer

Please refer to our letter of engagement – see Appendix E.

THE LOFT SHOP PROBABILITY OF DISTRESS

Assessing the probability of distress in the Loft Shop valuation

Traditional valuation methods implicitly assume that the business is a going concern and that any financial distress is only temporary. This is especially true of the discounted cash flow method in which a significant proportion of the valuation is deemed from the projected terminal value.

In proceeding with our valuation of Loft Shop trademark and of the Loft Shop Company, we feel it is important to adjust any use of discounted cash flow models to allow for the possibility of distress particularly as the company displays a falling turnover rate and losses.

Growth is not inevitable and businesses may not remain as going concerns for ever. The consequences for value can be serious. Our valuation is based on a declining growth rate as is currently the case and this is reflected in the terminal value.

Mature Business

The Loft Shop is a mature business which is displaying some signs of decline.

Characteristics of declining companies include stagnant or declining revenues. When considering Turnover which is averaged over three sequential years in each instance then one can see the point at which decline begins very clearly.

The decline is clear when looking at the turnover (averaged over three sequential years) but even more so when taking the same data and converting to net present value as at 2008 using retail price indices. [Appendix A]

Clearly including the risk of decline and potential failure of the business is appropriate to the model. Including figures for the management accounts projected to December 2009 and averaged as before shows that the trend may be halting and it is possible that rate of decline could be slowing down.

See figures 1.1 and 1.2 below.

Conclusion

The Loft Shop Limited is a mature business in a phase of decline. Certain decisions have been taken by management to counter the difficult trading conditions prevailing. These include a drive towards more efficient trading which gave good results in 2006 but in the light of the current credit crunch the price increases have resulted in a 4% drop in margin for the year ended 31 December 2008.

Improvements from e-commerce and sourcing of products from the Chinese plant continue to be worked on but in 2008 have not been able to match the rate of increase in prices.

THE LOFT SHOP PROBABILITY OF DISTRESS

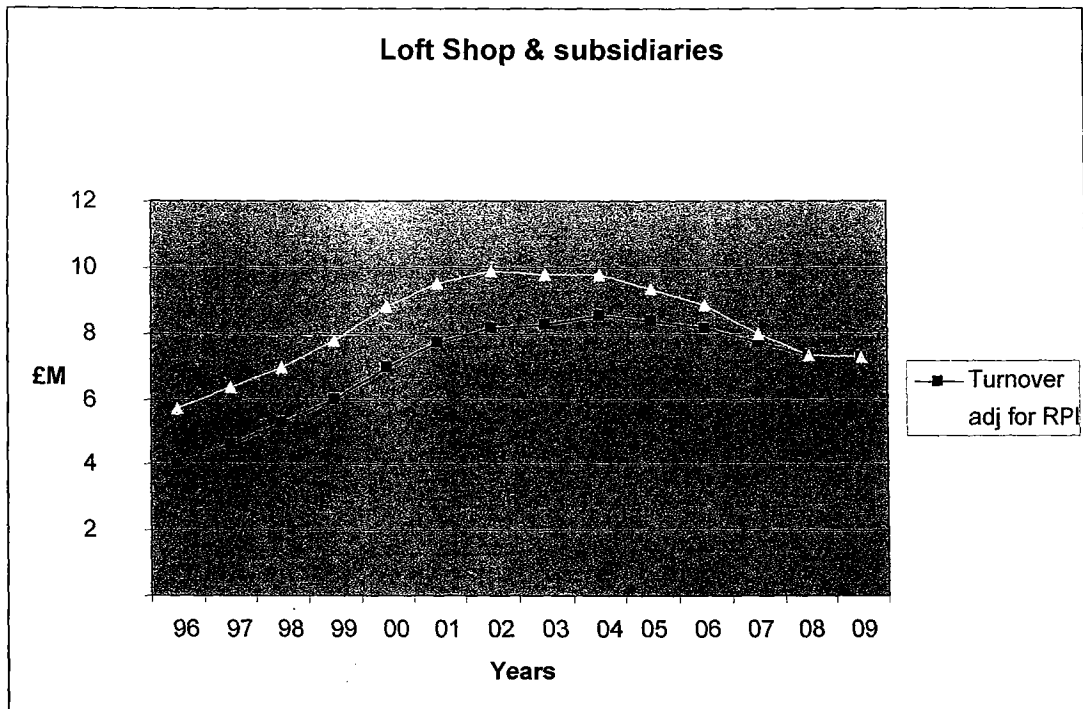


FIGURE 1.1

We adjusted the net earnings for unusual items and non-operating expenditure effects as far as possible and then compared the last four years:

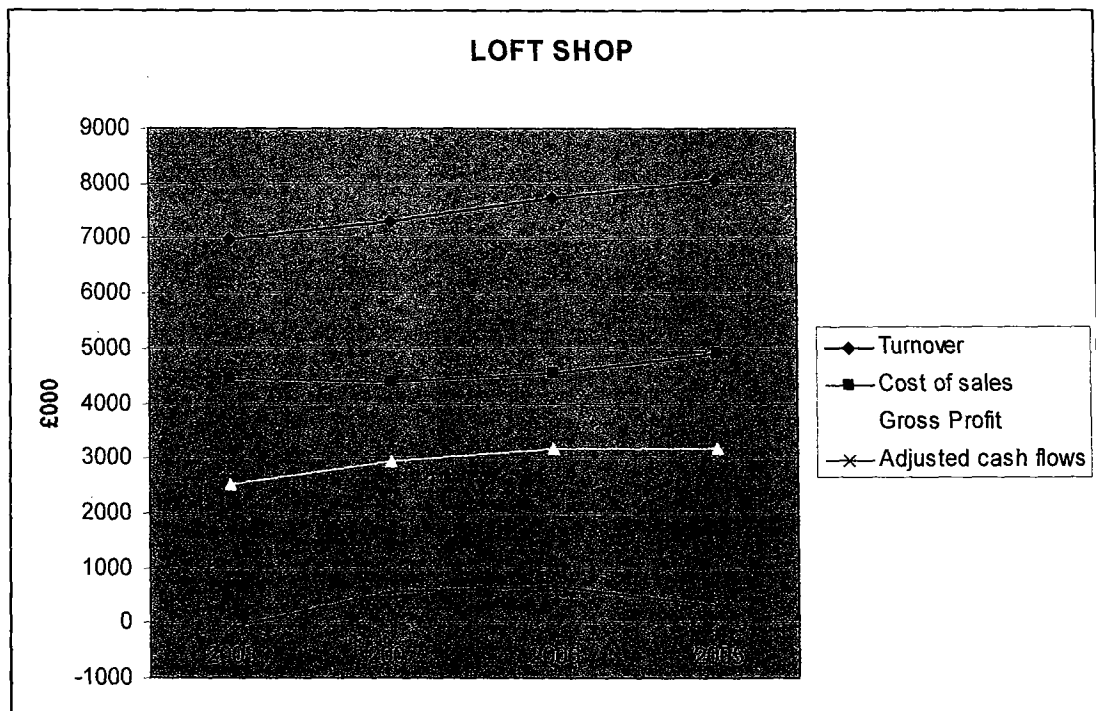


FIGURE 1.2

Again this shows a clear and linear fall in the actual turnover and the adjusted net earnings actually dip into negative for 2008.

THE LOFT SHOP ASSUMPTIONS

Loft Shop Limited and its subsidiaries

Rationale – Valuation

Main questions to consider:

- 1) What are the cash flows which will be generated by the existing asset base?
- 2) How much value if any will be added by future growth?
- 3) How risky are expected cash flows from existing and growth assets (expected value that will be created by future investments)?
- 4) What position is this business in its life cycle?

Assumptions

- i) Declining cash flows into the future – ie no growth is built into the model.

Loft Shop Limited is a mature business showing signs of decline. As such it is important to review historical data and base a prudent judgement on the cash flows which will be generated by the existing asset base.

The turnover has been in decline since 2004 (figures in £000s):

Year	Average Turnover	Average Turnover adjusted for RPI	Increase decrease CF to the following year	
1996	4,045	5,690	595	14.70%
1997	4,639	6,327	623	13.43%
1998	5,262	6,938	698	13.27%
1999	5,961	7,741	995	16.69%
2000	6,956	8,774	730	10.49%
2001	7,685	9,525	440	5.73%
2002	8,126	9,906	124	1.53%
2003	8,250	9,774	252	3.05%
2004	8,502	9,782	-137	-1.61%
2005	8,365	9,358	-211	-2.53%
2006	8,154	8,841	-457	-5.61%
2007	7,696	8,001	-365	-4.74%
2008	7,331	7,331	-82	-1.11%

Average decline over the period 2004 – 2008 = 0.031

The information included in the table above is based on an average over three years inclusive. The increase/-decrease to the following year of average turnover shows that the decline in turnover began in 2004 and has been slowing down since 2006.

THE LOFT SHOP ASSUMPTIONS

ii) Decline may be stemming

From the table in section (i) above, it can be reasonably assumed that the decline in turnover may have either slowed or halted (this has been shown by the management accounts for 2009, though for the purpose of this report the results have been excluded). In our net present value calculations we have used an average rate of decline over the five year period to 2008. However in order to make such an assumption it would also be prudent to use a finite life for the continuing business (say 15 years). The terminal value is based on eight times the value at year 15.

The basis above is deemed a prudent reflection of the risk as the accounts for 2008 include an emphasis of matter on going concern by the auditors.

iii) It has been assumed that certain accounting expenditure is not relevant for the purposes of the valuation of the business

Depreciation, taxation and the cost of finance are examples. See Appendix A for the adjustments made to the cash flow.

The average adjusted net cash flow obtained over a period of four years from 2005 to 2008 amounts to £116K. The projected figures to 2009 are not considered for this exercise as they are based on estimates. Figures prior to 2005 are not considered because the business was in a phase of growth.

iv) No consideration has been given to the Pension Plan operated by the company on behalf of its employees.

v) Cost of borrowing.

It is assumed that the cost of borrowing is deemed to be 9% - see Appendix B for the discounted rate used in the calculations and is based on premiums used to account for risks of size of the enterprise and the decline its performance.

vi) Cost of equity

It is assumed that the acceptable return on equity is 15%. Again see Appendix B for the discounted rate used in the calculations.

vii) WACC

Given the debt to equity ratio presenting in 2008, the WACC is 12%. However this is only a guide line. See Appendix B for the overall discounting rate used in the calculations.

THE LOFT SHOP

HISTORICAL ANALYSES

	Client Forecast	Projections	Actual	Actual	Actual	Actual
	2010	2009	2008	2007	2006	2005
	£000	£000	£000	£000	£000	£000
Net Results	202	-20	-544	96	105	-207
Adjust for Taxation	0	0	0	0	7	-23
Director' remuneration	266	266	266	267	279	299
Replace with management salary	0	0	-100	-100	-100	-100
Depreciation	53	60	74	73	87	69
Impairment write down on assets	0	0	0	0	13	0
Entertaining	0	0	0	0	3	0
Interest payable	18	8	8	3	0	0
Management charges	0	0	-410	-425	0	0
Exceptional items	0	0	492	0	0	0
	521	306	-304	336	394	38

Average adjusted cash flow (2005 - 2008)

116

Bank charges and interest

This figure is not easily extractable to calculate the cost of borrowing.

Bank loan and overdraft

267

	Per Client	Per Mgt Figures				
	2010	2009	2008	2007	2006	2005
Turnover	7,939	4,311	6,965	7,314	7,715	8,060
Cost of sales	5,023	2,410	4,456	4,359	4,553	4,901
Gross Profit	2,916	1,902	2,509	2,955	3,162	3,159
Adjusted cash flows	521	306	-304	336	394	38
	36.73%	44.11%	36.02%	40.40%	40.99%	39.19%

Advertising	126	179	157	120
Exhibitions			40	68

Annual commitments under non-cancellable operating leases:

Within one year	42	77	29	45
within two to five years	62	146	269	270
After five years	154	162	111	120
	258			

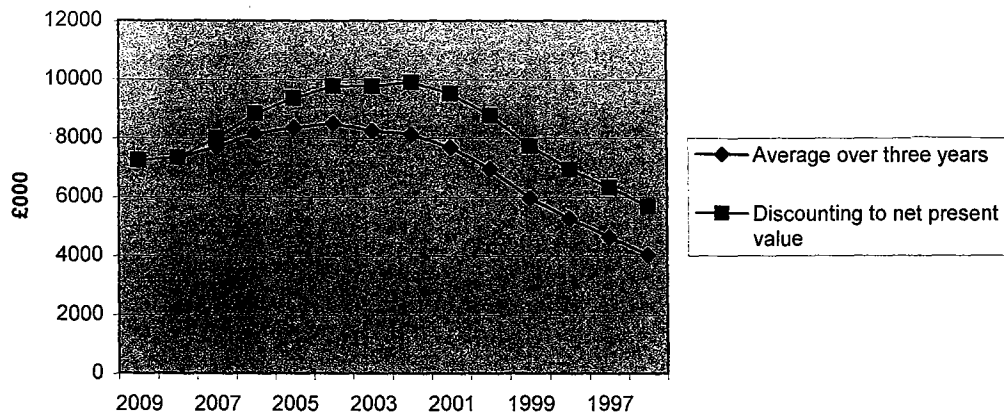
Average number of employees:

Admin	14	15	13	15
Operations	42	42	44	49

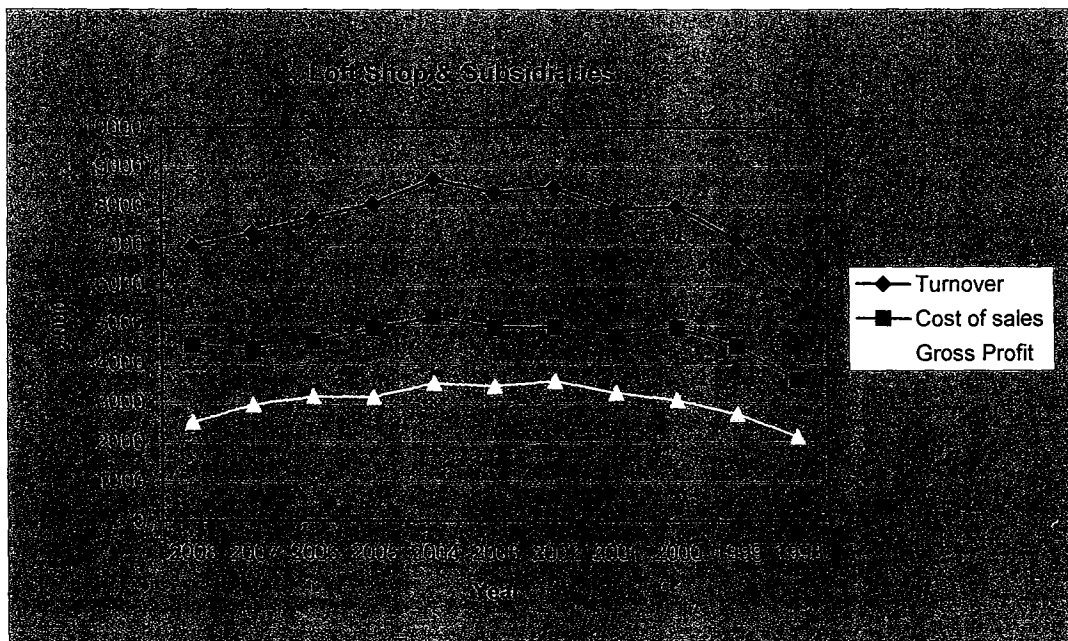
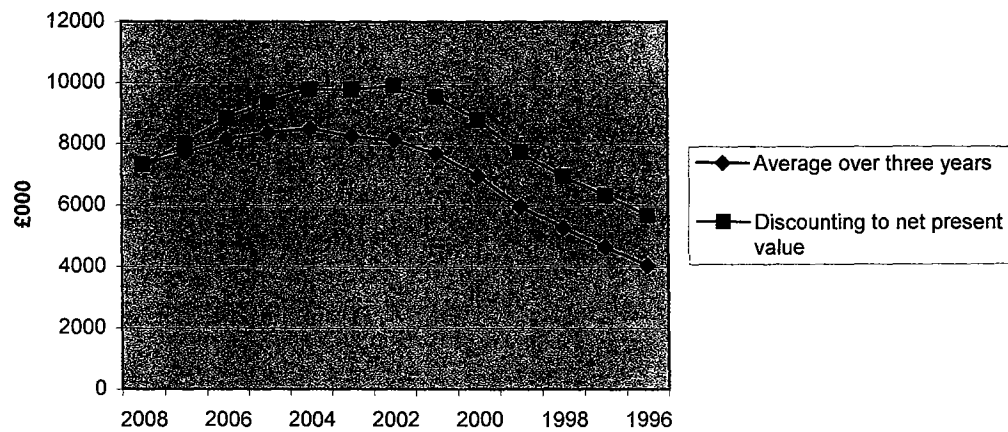
	current value	Break up				
Fixed Assets	109	0	109	179	112	197
Stock	609	300	609	629	520	634
Debtors	448	300	448	417	473	328
Amounts owed by Group		0	1,717	1,989	1,850	1,647
Corporation Tax	6	0	6	2	23	23
Other debtors	20	0	20	33	23	32
Prepayments and accrued income	222	0	222	174	202	127
Cash at bank	9	5	9	10	0	76
			3,140	3,433	3,203	3,064
Share capital			325	325	325	325
Profit and Loss			-702	-39	-135	-240
			-377	286	190	85
Bank loans and overdrafts	-242	-242	242	107	11	7
Hire purchase/Lease	-25	-25	25	36		
Trade creditors	-1,091	-200	1,091	975	987	921
Amounts owed to Group			1,717	1,597	1,597	1,597
Corporation tax					7	
Taxes and social security	-221	-221	221	282	299	326
Other creditors					1	4
Accruals and deferred income	-215	0	215	138	97	99
Provisions for dilapidations	-6	0	6	12	14	25
	-377	-83	3,140	3,433	3,203	3,064
		-258				
Value of operations	390	-341				
	13					

THE LOFT SHOP FURTHER HISTORICAL ANALYSES

Comparison of Average Turnover trend with net present value



Conversion of Turnover to NPV at 2008



LOFT SHOP LIMITED AND SUBSIDIARIES

VALUE OF OPERATIONS BASIS

Average adjusted cash flow calculated	£000 116.00
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net present value over a finite period of fifteen years using a discount rate of	25.00%
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	£000
Year 1	89.84
Year 2	69.58
Year 3	53.89
Year 4	41.73
Year 5	32.32
Year 6	25.03
Year 7	19.39
Year 8	15.02
Year 9	11.63
Year 10	9.01
Year 11	6.98
Year 12	5.40
Year 13	4.18
Year 14	3.24
Year 15	2.51
	389.74

Net Value of Operations	389.74
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Company Valuation:	389.74
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No terminal value has been included above if one were to be considered one could consider say 8 x year 15	20.08
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Company valuation adjusted for terminal value	409.82
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Note: The adjusted cash flow is derived from calculations on Appendix A
The period considered to derive an average result is 2005 - 2008 inclusive Management results and projections for 2009 have not been incorporated and client forecasts for 2010 have not been included

Note: Although the period covered in the above calculation includes a year, 2008 in which there is an adjusted negative cash flow, it is noted that the company has incurred negative cash flows in previous years and recovered - it is therefore reasonable to include the negative result in the average and the period of four years is not unrepresentative over which to derive

Note: The average calculations per Appendix A differ from original historical analyses per Appendix B as some normalising adjustments have been removed in the interests of prudence because there will be a large element of these which relate to ordinary operations.

	%
RISK FREE RATE OF RETURN ON STERLING	4.09
EQUITY RISK PREMIUM	7
UNQUOTED & SME PREMIUM	10
	21.09
DECLINING MARKET	4
Rate of discounting used in the model	25.09

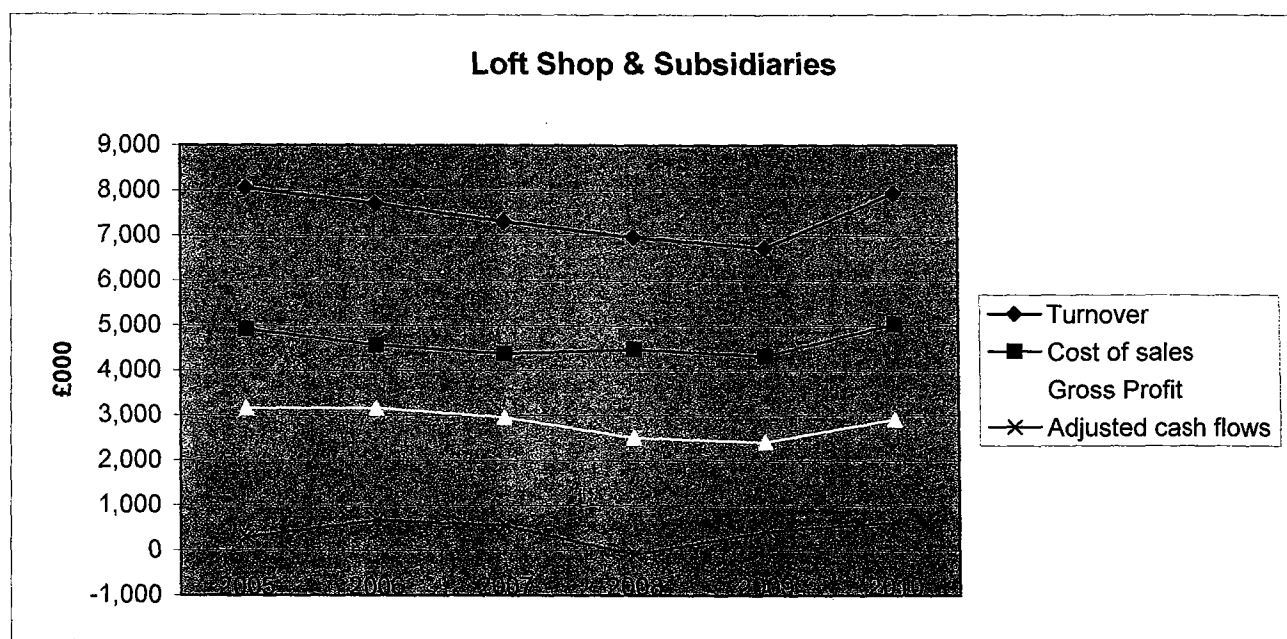
LOFT SHOP LIMITED AND SUBSIDIARIES
PROJECTED RESULTS FOR YEAR TO 31.12.2009

Actual Mgt
figures to Sept 2009

Group Cumulative	£000	Extrapolated for a year
Sales	5041	6721
Cost of sales	<u>3234</u>	<u>4311</u>
Gross Margin	<u>1807</u>	35.85% <u>2410</u>
Payroll	917	1223
Supplies and services	229	305
Marketing	33	43
Financial Charges	44	59
Establishment charges	558	743
Depreciation	<u>42</u>	<u>55</u>
	<u>1823</u>	<u>2430</u>
Profit and loss	-15	-20

LOFT SHOP LIMITED AND SUBSIDIARIES

	2005	2006	2007	2008	Client Forecast	
	£000	£000	£000	£000	2009	2010
					£000	£000
Net Results	-207	105	96	-544	-20	202
Adjust for Taxation	-23	7		0		0
Director' remuneration	299	279	267	266	266	266
Depreciation	69	87	73	74	60	53
Impairment write down on assets		13				
Entertaining		3				
Legal and professional	76	92	43	41	48	58
Bad debts	9	12	7	11	12	16
Bank charges	71	67	64	66	45	23
Interest payable			3	8	8	18
Management charges			-425	-410		
Exceptional items				492		
	294	665	550	-86	411	618
					Per Mgt Figures Per Client	
	2005	2006	2007	2008	2009	2010
Turnover	8,060	7,715	7,314	6,965	6,721	7,939
Cost of sales	4,901	4,553	4,359	4,456	4,311	5,023
Gross Profit	3,159	3,162	2,955	2,509	2,410	2,916
Adjusted cash flows	294	665	550	-86	411	618
	39.19%	40.99%	40.40%	36.02%	35.85%	36.73%



Comparison of Loft Shop Ltd Turnover with Consolidated Turnover:

Year	LS Ltd	LS Group	
2008	4,909.00	6,965.00	2,056.00
2007	5,376.00	7,314.00	1,938.00
2006	6,070.00	7,715.00	1,645.00
2005	6,589.00	8,060.00	1,471.00
	22,944	30,054	7,110

Average proportion of subsidiary turnover over four years

$$\frac{7110}{22944} = 30.99\%$$

LOFT SHOP LIMITED AND ITS SUBSIDIARIES VALUATION REPORT

LOFT SHOP TRADE MARK

Information received and reviewed in the preparation of this report

Financial Information

- a) Financial Statements – audited (1996 – 2008) - Group
- b) Financial Statements for Loft Shop Limited (2004 – 2008)
- c) Tax computations for the relevant years
- d) Interim management accounts for period to September 2009
- e) Management accounts underlying financial statements with gross profit analyses for the years 2005 – 2009
- f) Forecasts for the year to 31 December 2010.
- g) Discussion of budgets with management.
- h) Financial statements for subsidiaries 2006 - 2008

Other financial information

- a) Summary of shop locations and leases
- b) Break down of fixed assets and depreciation
- c) Discussions with management with reference to history of the trademark
- d) Copy of the original affidavit to support the application of the registration of the trademark 1987

Other information

- a) History – Loft Shop Ltd Company profile
- b) Legal correspondence with reference to the purpose of the valuations
- c) Some related marketing literature for Loft Shop Ltd and its subsidiaries
- d) List of locations and photographs of each shop site
- e) Discussions with management with respect to competitors and industry analysis
- f) Discussions with management about customer relationship and unique selling advantage points

Corporate information

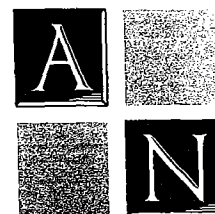
- a) Statutory records
- b) Board minutes
- c) Articles of incorporation
- d) Auditor's correspondence – management letters.

LOFT SHOP LIMITED AND ITS SUBSIDIARIES VALUATION REPORT

Web

- a) Complete list of web domain names as at October 2009
- b) Discussions with management about the profile of the business on web.
- c) Searches on internet to corroborate this information
- d) Searches on Intellectual Property Office to verify registration of trademark
- e) Downloads of statutory accounts for Youngman Group for comparison
- f) Risk free interest rates and other details for deciding discount rate.

An independent review of the workings and assumptions was also carried out prior to finalisation of the report.



ACCOUNTANTS
CHARTERED

Registered Auditors

Aruna House
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Surrey GU27 2QA

The Directors
The Loft Shop Ltd
50/51 Eldon Way
Littlehampton
West Sussex
BN17 7HE

26 November 2009

Dear Sirs,

The purpose of this letter is to set out the basis on which we are engaged by you to provide specific valuation services.

Valuation services

You have asked us to assist you in the valuation of the trade mark 'The Loft Shop' owned by The Loft Shop Limited, a company incorporated in the UK. You have also asked us to value the shares of The Loft Shop Limited.

We will prepare only the business valuation services identified above.

In carrying out our engagement we will make enquiries of management and undertake any procedures that we judge appropriate. We have not been asked to carry out an audit or assurance procedure on the valuation derived. The valuation is only based on the information given to us along with the explanations provided to us.

In most cases a business valuation is designed to estimate a fair value of an entity or part ownership in an entity or asset. This is generally defined as the price at which an asset or right to an asset would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having knowledge of the appropriate facts to make the decision.

We can make no assurances that we will be able to identify all of the appropriate facts necessary to make a decision about the object of this valuation. We may require you to provide us with a number of documents that will support our valuation estimate. Depending on the complexity, we may require interviews or request access to current management information and historical statutory accounts.

In addition, it should be understood that this engagement does not include any procedures designed to discover errors, misrepresentations, frauds, illegal acts, or theft and you agree that we have no responsibility to do so. It is important to understand that we will not be verifying, checking or substantiating the data that you submit to us. This assignment does not contemplate performing any audit, review, compilation or analysis procedures to your financial statements, forecasts or the financial data. We may ask you, however, to clarify some of the information you provide in order to better and more efficiently prepare your valuations. At the conclusion of this assignment you will be asked to sign a representation letter on the validity and reliability of the financial information used in this engagement.

It is critical that both parties understand the nature of the services that have been requested and the complexities and subjectivities that go into producing a quality business valuation:

- The selection of cash flow projections and assumptions, upon which is applied certain capital or discount rates, is subjective in that it relies on information that may not be valid after the valuation is completed.

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- Some adjustments commonly made including financial costs, taxation and various others may not be easily identifiable and will require extrapolation both historically and into the future.
- The selection of the multiple methods for valuing a company may produce differing results and an averaging approach may be necessary.
- Differing growth rate assumptions can change the valuation calculations dramatically. Other key variable assumptions may include criteria to measure and include risk.

In summary, many key factors and assumptions go into producing a professional business valuation that necessitates making judgements on our part. In our report we will lay out these assumptions such that a reader can understand our valuation rationale.

It must be understood that valuations can change dramatically with changes in underlying assumptions. Using this valuation for other than the understood purpose which you advised us of at the outset, may result in a material misrepresentation of this business's value. Further, using this valuation if it is known that significant assumptions have not manifested are made irrelevant or superseded is done so at your own risk.

Finally, it is also your responsibility to carefully review the final draft of the valuations reports before using them for their intended purpose. Any questions about figures, calculations or assumptions should be directed to us prior to issuance of the valuation report.

In common with all accountancy and legal practices, we are required by the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007 to:

- Maintain customer due diligence procedures for all clients;
- Maintain records of identification evidence;
- Report, in accordance with the relevant legislation and regulations, to the Serious Organised Crime Agency.

You have undertaken to make available to us, as and when required, all the company's accounting records and related financial information, including minutes of management and shareholders' meetings necessary for the purposes of our valuation. You will make full disclosure to us of all relevant information and explanations we may require.

If you are dissatisfied in any way with our services as described, you should follow the procedures set out in the "Quality of service" section below.

Additional services

You may request that we perform additional services not contemplated by this engagement letter. If this occurs, we will communicate with you regarding the scope and estimated cost of these additional services. Engagements for additional services will necessitate that we issue a separate engagement letter to reflect the obligations of both parties. In the absence of any other written communications from us documenting such additional services, our services will be governed by the terms of this engagement letter.

Fees

Our fees are computed on the basis of the time spent on your affairs by the partners and our staff and on the levels of skill and responsibility involved. Unless otherwise agreed, our fees will be billed at appropriate intervals during the course of the engagement and will be due on presentation.

If it is necessary to carry out work outside the responsibilities outlined in this letter it will involve additional fees.

Invoices are payable in full before the valuation report is signed and made available to you.

Our terms relating to payment of amounts invoiced and not covered by standing orders, where appropriate, are strictly 14 days net.

Retention of and access to records

During the course of our work we will collect information from you and others acting on your behalf and will return any original documents to you following the preparation of your accounts and returns.

Whilst certain documents may legally belong to you, we intend to destroy correspondence and other papers that we store which are more than seven years old, other than documents which we consider to be of continuing significance. If you require retention of any document you must notify us of that fact in writing.

Quality of service

We aim to provide you with a fully satisfactory service and Anu Sharma as engagement director will seek to ensure that this is so. If, however, you are unable to deal with any difficulty through her and her team please contact Mrs Sarah Rout. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. If we do not answer your complaint to your satisfaction you may of course take up the matter with the ICAEW by whom we are regulated.

Applicable law

This engagement letter shall be governed by, and construed in accordance with, English law. The Courts of England shall have exclusive jurisdiction in relation to any claim, dispute or difference concerning the engagement letter and any matter arising from it. Each party irrevocably waives any right it may have to object to an action being brought in those Courts, to claim that the action has been brought in an inconvenient forum, or to claim that those Courts do not have jurisdiction.

Persons who are not party to this agreement shall have no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this agreement. This clause does not affect any right or remedy of any person which exists or is available otherwise than pursuant to that Act.

Electronic communication

Internet communications are capable of data corruption and therefore we do not accept any responsibility for changes made to such communications after their despatch. It may therefore be inappropriate to rely on advice contained in an email without obtaining written confirmation of it. We do not accept responsibility for any errors or problems that may arise through the use of internet communication and all risks connected with sending commercially sensitive information relating to your business are borne by you. If you do not agree to accept this risk, you should notify us in writing that e-mail is not an acceptable means of communication.

It is the responsibility of the recipient to carry out a virus check on any attachments received.

Data Protection Act 1998

We may obtain, use, process and disclose personal data about you in order that we may discharge the services agreed under this engagement letter, and for other related purposes including updating and enhancing client records, analysis for management purposes and statutory returns, crime prevention and legal and regulatory compliance. You have a right of access, under data protection legislation, to the personal data that we hold about you. For the purposes of the Data Protection Act 1998, the Data Controller in relation to personal data supplied about you is Nirmal Sharma.

External review

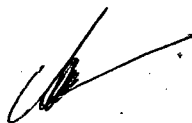
As part of our ongoing commitment to providing a quality service, our files are periodically subject to an independent quality review. Our reviewers are highly experienced and professional people and are bound by the same requirements of confidentiality as our principals and staff.

Agreement of terms

The terms set out in this letter shall take effect immediately upon your countersigning this letter and returning it to us or upon the commencement of the assignment, whichever is the earlier.

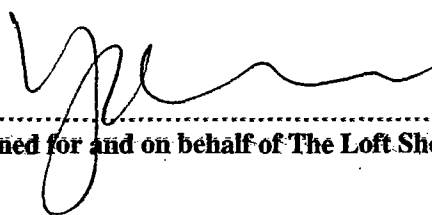
Once it has been agreed, this letter will remain effective until it is replaced. We shall be grateful if you could confirm in writing your agreement to the terms of this letter, or let us know if they are not in accordance with your understanding.

Yours faithfully



A&N Chartered Accountants

We agree to the terms of this letter.



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Signed for and on behalf of The Loft Shop Limited