Registered Number 00148038

Shoe Zone Retail Limited

Annual Report and Financial Statements

for the 52 weeks ended 3 October 2020

Shoe Zone Retail Limited

Financial statements for the 52 weeks ended 3 October 2020

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Shoe Zone Retail Limited

Directors and advisers

Directors

A E P Smith
J C P Smith
J L Fearn (resigned on 31 July 2020)
Peter Foot (appointed on 23 July 2020, resigned 19 February 2021)
Terry Boot (appointed on 8 March 2021)
Catherine Bowen (appointed on 1April 2021)
C A Howes
S Orr

Company secretary

C Bowen

Registered office

Haramead Business Centre
Humberstone Road
Leicester
LE1 2LH

Auditor

Cooper Parry Company Limited
East Midlands Office
Sky View
Argosy Road
East Midlands Airport
Derby
DE74 2SA

Bankers

NatWest
1 Granby Street
Leicester
LE1 9GT

HSBC Bank plc
2-6 Gallowtree Gate
Leicester
LE1 1DA

Strategic report for the 52 weeks ended 3 October 2020

Chief Executive's report

In my second year back as Chief Executive, it is disappointing I am reporting on a year impacted by COVID-19. Despite this, there are positives such as the continued growth of digital and the commitment and focus of our loyal employees. The financial pressure caused by COVID-19 has meant we now have debt on the balance sheet for the first time in over 15 years.

The business model of digital, big box, hybrid and town centre stores remains the same although the percentage contributions of each area are changing fast due to lockdown restrictions, some of which will be a permanent shift.

In 2020, the business delivered revenue of £122.60m (2019: £162.0m). Loss before tax was £14.4m (2019: profit before tax £6.9m). During the year freehold property values were reviewed to reflect the deteriorating retail property environment, resulting in a non-cash adjustment of £2.3m.

Digital

Digital continues to be a key growth area especially during lockdown periods when it was our only source of income. Our relatively new autonomous digital department has been very effective at coping with unexpectedly huge growth in sales and volumes.

Digital revenue was £19.3m (2019: £10.6m) with growth of 82% and a profit contribution of £4.6m (2019: £3.0m). The slower increase in contribution was due to heavy discounting in Lockdown 1 using a "Buy One Get One Free" promotion to generate cash and rectify overstocks. Discounting and resultant lower margins continue to be an ongoing issue due to COVID-19. We also had to slow down our digital exclusive lines due to lack of availability from suppliers. Gross margin during April 2020 was 28.7% (2019: 65.4%), and in May was 52.4% (2019: 64.7%). Gross margin took 5 months to recover in the financial year, and hence digital margin for the period as a whole was 51.7% (2019: 60.3%).

By the close of the year we grew the email database to 1.45m engaged members (2019: 1.1m). The conversion rate grew to 4.47% (2019: 3.48%) however this has been artificially inflated because of stores not being open, although we are focused on taking advantage of the increase in engaged database members going forward.

Returns continue to be extremely low at 8.4% (2019: 11%). The returns' rate has been lower than expected during lockdown due to the mix of product sold. We expect this to return to c.10% as trading patterns stabilise.

Big Box & Hybrid

The big box stores have increased by 9 to a total of 51 stores. Revenue was £17.1m (2019: £15.6m) with a contribution loss of £0.2m (2019: £1.5m profit). This loss is entirely attributable to the COVID-19 lockdown impact.

The hybrid stores have increased by 2 to a total of 6. These have performed well and will be our strategy for town centre renewal over the next five years, which we anticipate will contribute the majority of our town centre profitability.

Product

We revived the 'Lilley & Skinner' brand in Spring/Summer with premium sandals and Autumn/Winter with boots. These are sourced direct from factories and deliver strong margins.

Osaga, Red Level, Stone Creek, Urban Territory were former Brantano brands acquired during the year to develop for our big box and hybrid ranges. These brands will enhance our "made to order" product ranges. Clarks gave us notice to end our relationship due to their ongoing difficulties. This brand was performing poorly for us, so will not be missed.

Property

We ended the period operating from 460 stores, having opened 10 (9 big box; 1 hybrid) and closed 50. We completed 8 refits. Total capital expenditure was £2.8m (2019: £7.3m).

Average rental levels at lease renewal have fallen by 30.9% (2019: 23.1%) saving £777k (2019: £631k). We expect this trend will continue as property supply continues to outstrip demand.

Our average lease length is 2 years, giving us opportunity to respond to changes in any retail location at short notice.

Strategic report for the 52 weeks ended 3 October 2020 (continued)

Dividend

The effect of COVID-19 has meant the business has taken on debt of £12m after being debt free for over 15 years. Our defined benefit pension schemes remain in deficit of £10.6m and will need greater support. Until the business is debt free, has tackled the pension deficit, repaired the balance sheet and restored capital expenditure, the business will not be in a position to make dividend payments. We anticipate this will not be before 2025.

Outlook

We welcomed back customers to all of our stores during April. After a buoyant start to trade this has now settled to a more normal pattern broadly in line with our expectations.

Property

We have opened 1 hybrid store and completed 3 conversions (2 hybrid; 1 big box). Now all of our stores are open we have 427 stores (52 big box; 9 hybrid; 367 town centre). We have closed 33 stores which is faster than previously forecast, mainly due to COVID-19 and certain towns becoming unviable due to the closures of complementary retailers.

We expect closures and openings to be at a similar level to 2020 (50 closures and 10 relocations). This is expected to continue for the next 2-3 years, and will have a negative cash impact due to the closure costs of redundancies and dilapidations.

Capital expenditure

The rollout of big box stores has been suspended for the foreseeable future due to the financial pressure caused by COVID-19.

The hybrid stores have performed well and we now plan to relocate 10 stores to this format in 2021. These are largely funded by rent free periods from landlords, payback within 12 months and have a high success rate because we are relocating the existing stores. Most of these relocations are essential to protect store contributions in decent towns where our current lease has expired.

Non-store capital expenditure is suspended unless it is business critical e.g. Payments software update to comply with GDPR.

Product

The November 2020 and current lockdowns are having a material impact on sales and margins. This will leave us with a winter stock overhang of c. £7m at cost, that we are unable to deal with until Autumn 2021, as it is currently locked away in non-trading stores. We have sufficient warehouse stocks to fulfil digital orders on the majority of high-volume styles.

Freight rates post-Christmas have significantly increased to c. £6,500 per container (2019: £1,900). We can't forecast how long this will last but it is significant as we import on average 100 containers per month.

Owing to Force Majeure stock cancellations during Lockdowns 1–3, we now have an excess of dollar hedges. We will keep the excess dollars for future use unless the business requires it for sterling payments.

Conclusion

We have received government assistance via furlough payments, grants and rates relief. We have also had cash flow assistance via VAT deferral, rent deferrals from landlords (some discounts/COVID-19 clause reductions in rent), cancellations of stock with suppliers and other cost savings.

We do not expect profits will return to pre COVID-19 levels for the foreseeable future. Lockdown in November and January to mid-April so far in this financial year and post year end makes a return to profit extremely unlikely until the financial period ending on 2nd October 2022 at the earliest.

I would like to thank all those who gave us assistance in 2020 and have continued to help us in 2021. We are working very well as a management team in finding innovative ways to secure a future for our extremely dedicated "Shoezoners"

Strategic report for the 52 weeks ended 3 October 2020 (continued)

Director's statement of compliance with the duty to promote the success of the Company (Section 172(1) statement)

The Directors have acted in the way that they consider, in good faith, promotes the success of the Company for the benefit of its members as a whole, and in doing so have given regard to (amongst other matters):

External relationships

The vast majority of the Company's products are manufactured overseas in China and to a lesser extent in India and Europe. As a result, the Company is subject to the risks associated with international trade, particularly those common in the importation of goods from developing countries, including the imposition of taxes or other charges on imports, compliance with and changes to import restrictions and regulations, and exposure to different legal standards and the burden of complying with a variety of foreign laws and changing foreign government policies.

The Company's policy for the payment of suppliers is to agree payment terms in advance and to abide by such terms.

The Company continually develops strategies to further improve its strong relationship with its suppliers.

Our people

Our long-term success depends on looking after the best interests of our employees, customers, shareholders and suppliers.

All employees are able to contribute to the ongoing success of the business through regular contact between management and employees. We promote equal opportunities and do not tolerate discrimination of any kind. We operate a non-contractual profit share scheme that rewards all employees, with service greater than one year, based on the overall company profit performance. Details on the number of people employed can be found in note 6 of the financial statements.

I am delighted that Terry Boot joined us on 8th March 2021 as our new Finance Director. The Board meets regularly and communicates with our people on a regular basis to ensure they all understand our strategic objectives both short and long-term.

I am incredibly proud of the effort of our employees in extremely difficult circumstances and want to thank them for their ongoing commitment and hard work and the considerable efforts needed in the months ahead.

Charity

We donated over £165,000 to charitable causes. These donations are mainly targeted at children in poverty/difficult circumstances locally, nationally and internationally and delivered via The Shoe Zone Trust.

Environment

We recognise the impact of our activities on the environment. We relentlessly review our consumption of single use plastics and have eliminated them in all own label products. We recycle all cardboard and plastic waste from our stores and head office. We use sea transportation to reduce emissions. We are currently trialling our first Compressed Natural Gas delivery lorry.

Political donations

During its last financial period the Company made no political donations and incurred no political expenditure. The Company does not intend to make any such donations or incur any such expenditure this year.

Anthony Smith
Chief Executive
Date: 23 June 2021

Directors' report for the 52 weeks ended 3 October 2020

The Directors present their Annual Report and audited financial statements of the Company and the Company for the 52 weeks ended 3 October 2020.

Principal activity

The principal activity of the Company continues to be footwear retailing in the United Kingdom and Ireland.

Results and dividends

The current accounting period shows results for 52 weeks ending 3 October 2020. The Underlying Loss before Tax for the period was £14.4m (53 weeks ended 5 October 2019: Profit £6.9m).

The Company has net assets of £13.5m at 3 October 2020 (5 October 2019: £32.3m).

The directors declared and paid a dividend of Nil (52 weeks ending 5 October 2019: £9.8m).

The disclosure requirements of the Companies Act 2006 have been met by the contents of this Directors' Report, apart from the likely future developments in the business and existence of stores which are included within the Strategic Report which should therefore be read in conjunction with one another.

The Company

Shoe Zone plc (the 'Company') is a Company incorporated and domiciled in the UK, with the registered company number 08961190. The company is listed on the AIM market of the London Stock Exchange.

Directors

The Directors who held office during the year and up to the date of signing the financial statements are listed on the directors and advisors page.

Directors' Indemnities

The Company maintains liability insurance for directors and officers as permitted by section 234 of the Companies Act 2006.

Employees

The Company employed 3,428 (05 October 2019: 3,519) employees at the year end.

The Company's policy is to actively involve its employees in the business to ensure that matters of concern to them, including the Company's aims and objectives and the financial and economic factors which impact them are communicated in an open and regular manner.

The Directors are committed to delivering the highest standards of health and safety for employees, customers and others that might be affected by the Company's activities

The Company is committed to employing the right people, training them well and promoting from within wherever possible. Well trained and motivated employees are key to delivering good service to our customers and are fundamental to the long-term success of the business.

All employees are able to contribute to the ongoing success of the business through regular contact between management and employees. *We promote equal opportunities and do not tolerate discrimination of any kind.*

Directors' report for the 52 weeks ended 3 October 2020 (continued)

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of liquidity risk, foreign currency risk and interest rate risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring the management of net cash, and the related finance income and costs. As the Company has both interest bearing assets and interest bearing liabilities, management maintain a close monitoring of the respective balances to ensure any interest rate risk is managed.

The Company does not make significant use of derivative financial instruments but does use forward currency contracts when management consider this to be appropriate. External expert advice is sought from the Company's bankers and relevant advisors on the suitability of these currency contracts in respect of the timings and rate. The Company has no exposure to equity securities. Limited credit risk exposure exists given the high level of cash transactions through the store network. Where credit risk arises management have procedures in place to assess the level of risk to be taken, with approval by the Directors for significant credit transactions. Further information can be found in Shoezone PLC's financial statements.

Environment

The vast majority of our stores in England, Wales and Scotland have a requirement to ensure that all packaging and store waste is returned to our distribution centre to be recycled and re-used.

Anthony Smith
Chief Executive
Date: 23 June 2021

Directors' report for the 52 weeks ended 3 October 2020 (continued)

Streamlined Energy and Carbon Reporting (SECR)

Energy consumption breakdown (kWh):

Electricity	13,642,297
Natural gas	2,300,880
Transport fuel	428,475
Other fuels	
Totals	**16,371,652**

Greenhouse gas emissions (tCO2e):

From combustion of fuel	
Natural gas	423.06
Transport fuel for company vehicles	57.34
Transport fuel for rental vehicles	48.29
Other fuels	-
Subtotal	**528.69**
From Purchased Electricity, Steam, Heat & Cooling	3,180.57
From Other Activities inc. Process & Fugitive	23.53
Subtotal	**3,204.10**
Total gross emissions	**3,732.79**
Renewable electricity	-
Carbon offsets	-
Domestic carbon units	-
Total net emissions	**3,732.79**

Intensity ratios

Annual MWh per £m Turnover	133.58
Annual tCO2e per £m Turnover	30.46

Directors' report for the 52 weeks ended 3 October 2020 (continued)

Going Concern

The Directors consider that the business is a going concern and that it is appropriate to prepare the financial statements on a going concern basis. In reaching this conclusion, the Directors have assessed the Company's current performance and position and factors that may affect the Company's future prospects.

The Company remains in a satisfactory financial position with strong cash reserves, it also has in place a £3.0m overdraft facility. During the pandemic the company took a COVID-19 Large Business Interruption Loan Scheme (CLBILS) loan of £7.0m, this requires the Company to comply with certain financial covenants, these have been met during the year and post year end. With the successful rollout of the vaccine programme and the reopening of all our stores during April 2021 the Directors are encouraged by the initial trading results and have reviewed forecasts and projections and consider the Company to have adequate cash resources to meet its operational and capital commitments.

Digital performance growth combined with the satisfactory cash position gives the Directors a reasonable basis on which to satisfy themselves that the business is a going concern.

Events after the year-end

Between 3 October 2020 and the date of this report, there have been no material events that need to be reported in the financial statements. The Strategic Report, the Directors' Report and the Remuneration Report were approved by the Board.

Directors' responsibilities statement

The Directors are responsible for preparing the strategic report, the Director's 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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 101 "Reduced Disclosure Framework" ("FRS 101") and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Shoe Zone Retail Limited

Directors' report for the 52 weeks ended 3 October 2020 (continued)

Disclosure of information to auditor

Each Director in office at the date of approval of this report has confirmed that:

- So far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- They has taken all reasonable steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

Approved by the Board and signed on its behalf:

Anthony Smith
Chief Executive
Date: 23 June 2021

Independent auditor's report to the members of Shoe Zone Retail Limited

Opinion

We have audited the financial statements of Shoe Zone Retail Limited ("the company") for the 52 weeks ended 3 October 2020 which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 3 October 2020 and of its loss for the 52 weeks 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Shoe Zone Retail Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and director's report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are *free from material misstatement, whether due to fraud or error.*

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of Shoe Zone Retail Limited (continued)

Use of our report

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.

Cooper Parry Group Ltd.

Katharine Warrington (Senior Statutory Auditor)
For and on behalf of
Cooper Parry Company Limited
Chartered Accountants
Statutory Auditor

Sky View
Argosy Road
East Midlands Airport
Castle Donington
Derby
DE74 2SA

Date : 24 June 2021

Shoe Zone Retail Limited

Profit and loss account for the 52 weeks ended 3 October 2020

	Note	**52 weeks ended 3 October 2020**	53 weeks ended 5 October 2019
		£'000	£'000
Revenue	3	**122,568**	162,047
Cost of sales	4	**(114,455)**	(136,965)
Gross Profit		**8,113**	25,082
Administration expenses	4	**(13,752)**	(11,902)
Distribution costs	4	**(6,895)**	(6,154)
(Loss)/Profit from operations		**(12,534)**	7,026
Finance income	8	**10**	44
Finance expense	8	**(1,901)**	(172)
(Loss)/Profit before taxation		**(14,425)**	6,898
Taxation	9	**2,698**	(985)
(Loss)/Profit attributable to equity holders of the parent		**(11,727)**	5,913

Shoe Zone Retail Limited

Statement of comprehensive income for the 52 weeks ended 3 October 2020

	Note	**52 weeks ended 3 October 2020**	53 weeks ended 5 October 2019
		£'000	£'000
(Loss)/Profit for the period		**(11,727)**	5,913
Other comprehensive expense – items that will not be reclassified to the profit and loss account			
Re measurement (losses) on defined benefit pension scheme		**(2,114)**	(4,177)
Movement in deferred tax on pension schemes		**899**	707
Items that will be reclassified subsequently to the profit and loss account			
Fair value movements on cash flow hedges		**(2,124)**	648
Tax on cash flow hedges		**363**	(126)
Other comprehensive (expense) / income for the period		**(2,976)**	(2,948)
Total comprehensive (expenses)/income for the period		**(14,703)**	2,965

Shoe Zone Retail Limited

Balance sheet as at 3 October 2020

	Note	3 October 2020	5 October 2019
		£'000	£'000
Fixed assets			
Tangible assets	11	**16,967**	22,143
Right of use assets	12	**42,387**	-
Deferred tax asset	20	**5,617**	1,671
		64,971	23,814
Current assets			
Stocks	13	**26,698**	28,511
Debtors	14	**4,278**	10,295
Cash at bank and in hand		**13,266**	11,417
		44,242	50,223
Creditors: amounts falling due within one year	15	**(39,870)**	(28,441)
Net current assets		**4,372**	21,782
Total assets less current liabilities		**69,343**	45,596
Creditors: amounts falling due after one year	16	**(42,531)**	(2,432)
Provisions for liabilities and charges	19	**(2,731)**	(1,085)
Net assets excluding pension liability		**24,081**	42,079
Provisions for liabilities - pension liability	25	**(10,594)**	(9,736)
Net assets including pension liability		**13,487**	32,343
Capital and reserves			
Called up share capital	22	**10,050**	10,050
Capital redemption reserve		**38**	38
Cash flow hedge reserve		**(116)**	1,645
Retained earnings		**3,515**	20,610
Shareholders' funds		**13,487**	32,343

The financial statements were approved and authorised for issue by the board of directors and were signed on its behalf by:

Anthony Smith
Chief Executive
Date: 23 June 2021

Shoe Zone Retail Limited

Statement of changes in equity for the 52 weeks ended 3 October 2020

	Share capital	Capital redemption reserve	Cash flow hedge reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
At 29 September 2018	10,050	38	1,123	27,917	39,128
Profit for the period	-	-	-	5,913	5,913
Defined benefit pension movements	-	-	-	(4,177)	(4,177)
Deferred tax on other comprehensive income	-	-	648	-	648
Other comprehensive expense	-	-	(126)	707	581
Total comprehensive income for the period	-	-	522	2,443	2,965
Dividends paid (note 10)	-	-	-	(9,750)	(9,750)
Total contributions by and distributions to owners	-	-	-	(9,750)	(9,750)
At 5 October 2019	10,050	38	1,645	20,610	32,343
Impact on transition to IFRS 16				(4,153)	(4,153)
At 6 October 2019	10,050	38	1,645	16,457	28,190
Profit for the period	-	-	-	(11,727)	(11,727)
Defined benefit pension movements	-	-	-	(2,114)	(2,114)
Deferred tax on other comprehensive income	-	-	363	899	1,262
Other comprehensive expense	-	-	(2,124)	-	(2,124)
Total comprehensive income for the period	-	-	(1,761)	(12,942)	(14,703)
Dividends paid (note 10)	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-
At 3 October 2020	**10,050**	**38**	**(116)**	**3,515**	**13,487**

Share capital comprises nominal value of shares subscribed for.

Capital redemption reserve is used to maintain capital on the cancellation of ordinary shares.

The cash flow hedge reserve comprises of gains/losses arising on the effective portion of hedging instruments and is carried at fair value in a qualifying cash flow hedge Retained earnings are all other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Notes to the financial statements for the 52 weeks ended 3 October 2020

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 100 'Application of Financial Reporting Requirements' and Financial Reporting Standard 101 "Reduced Disclosure Framework". The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared under the historical cost convention and in accordance with FRS 101 "Reduced Disclosure Framework".

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- Certain comparative information as otherwise required by EU endorsed IFRS;
- Certain disclosures regarding the Company's capital;
- A statement of cash flows;
- The effect of future accounting standards not yet adopted;
- The disclosure of remuneration of key management personnel and
- Disclosure of related party transactions with other wholly owned members of Shoe Zone plc.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of Shoe Zone plc. The financial statements of Shoe Zone plc can be obtained as described in note 27.

These financial statements do not include certain disclosures in respect of:

- Financial instruments (other than certain disclosures required as a result of recording financial instruments at fair value);
- Fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value).

Notes to the financial statements for the 52 weeks ended 3 October 2020

1 Accounting policies (continued)

Consolidated financial statements

Under the provision of Section 400 of the Companies Act 2006 the Company is exempt from preparing consolidated financial statements as it is a wholly owned subsidiary of Shoe Zone plc which prepares consolidated financial statements. Therefore the financial statements show information about the Company as an individual entity only.

Dividends

Dividends are recognised when they become legally payable. In the case of the interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

Notes to the financial statements for the 52 weeks ended 3 October 2020

1 Accounting policies (continued)

Going Concern

The Directors consider that the business is a going concern and that it is appropriate to prepare the financial statements on a going concern basis. In reaching this conclusion, the Directors have assessed the Company's current performance and position and factors that may affect the Company's future prospects.

The Company remains in a satisfactory financial position with strong cash reserves, it also has in place a £3.0m overdraft facility. During the pandemic the company took a COVID-19 Large Business Interruption Loan Scheme (CLBILS) loan of £7.0m, this requires the Company to comply with certain financial covenants, these have been met during the year and since year end. With the successful rollout of the vaccine programme and the reopening of all our stores during April the Directors are encouraged by the initial trading results and have reviewed forecasts and projections and consider the Company to have adequate cash resources to meet its operational and capital commitments.

Digital performance growth combined with the satisfactory cash position gives the Directors a reasonable basis on which to satisfy themselves that the business is a going concern.

IFRS 16 Leases

IFRS 16 Leases is effective for the Company from 6 October 2019 and replaces existing lease guidance under IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of all leases.

Leases in which the Company is a lessee

A majority of the Company's trading stores are leased. The Company also has a number of non-property leases relating to vehicles and other equipment.

Under IFRS 16 on commencement of a lease the Company recognises on the Balance Sheet a right of use asset and a lease liability representing its obligation to make payments under the lease.

The right of use asset is established as the cost value of the initial measurement of the lease liability adjusted for any lease payments made at or before commencement and any lease incentives received or premiums paid. The Company depreciates the right of use assets on a straight line basis from the lease commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The Company assesses the right of use asset for impairment on a periodic basis. The Company has not factored the dilapidation provision into the right of use asset as the provision relates to general 'wear and tear' as opposed to structural changes.

The lease liability is initially measured as the present value of the remaining lease payments, discounted using the interest rate based on the Company's incremental borrowing rate. Subsequent to initial measurement, the liability will be reduced for lease payments made and increased by interest charged on the net liability value. The carrying value of the lease liability is periodically remeasured to reflect any modification event such as any change to in-substance fixed payments or change in the lease term. When the lease liability is remeasured the corresponding adjustment is reflected in the right of use asset or profit and loss account if the right of use asset is already reduced to zero.

The Company has elected to account for short term leases and leases of low-value assets using the practical expedient method. Instead of recognising a right of use asset and a lease liability, the payments for these are treated as an expense on a straight line basis over the term of the lease. The total value of leases/agreements where the company has used the practical expedient are disclosed in note 12.

Notes to the financial statements for the 52 weeks ended 3 October 2020

2 Accounting policies (continued)

Leases in which the Company is a lessor

Lessor accounting remains the same as that applied under IAS 17 and applied to previous accounting periods. At inception the lease is assessed as being an operating or finance lease. This assessment is based on an evaluation as to whether the lease transfers substantially all the risks and rewards to the underlying asset. If this is the case then the lease is identified as a finance lease. If not the lease is recognised as an operating lease.

The Company has a very small number of leases where it is intermediate lessor.

The Company has adopted IFRS 16 Leases on 6 October 2019 using the modified retrospective approach. The cumulative effect of adopting IFRS 16 has been recognised as an adjustment to the opening balance sheet as at 6 October 2019, with no restatement of comparable information and a £4.2m adjustment (debit) to retained earnings.

Under the modified retrospective approach the opening right of use asset can be measured in one of two ways:

a) As if the Company had applied IFRS 16 since the commencement date using its incremental borrowing rate at the date of initial application; or
b) Measured at an amount equal to the lease liability at the date of initial application.

The right of use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the balance sheet as at 6 October 2019.

The Company applies the practical expedient, not to reassess whether a contract is or contains a lease at the date of application. This means the Company applies IFRS 16 to all contracts entered into before 6 October 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Company has elected to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, except for leases which are expected to be renewed or replaced by a lease with a term greater than 12 months. These leases are accounted for as short-term leases and the lease payments associated with them are recognised as an expense.

1 Accounting policies (continued)

IFRS 16 transition note (continued)

The impact on the income statement for the 52 weeks ended 3 October 2020 is as follows:

	52 weeks ended 3 October 2020 (excluding IFRS 16 adjustments)	IFRS 16 adjustment	52 weeks ended 3 October 2020 (including IFRS 16 adjustments)
	£'000	£'000	£'000
Revenue	**122,568**	-	122,568
Cost of sales	**(109,870)**	(4,585)	(114,455)
Gross profit	**12,698**	(4,585)	8,113
Administration expenses	**(15,102)**	1,350	(13,752)
Distribution costs	**(6,910)**	15	(6,895)
Loss from operations	**(9,314)**	(3,220)	(12,534)
Finance income	**10**	-	10
Finance expense	**(217)**	(1,684)	(1,901)
Loss before tax	**(9,521)**	(4,904)	(14,425)
Taxation	**2,698**	-	2,698
Loss after tax	**(6,823)**	(4,904)	(11,727)

Shoe Zone Retail Limited

IFRS 16 transition note (continued)

	Note	53 weeks ended 5 October 2019 (excluding IFRS 16 adjustments)	53 weeks ended 5 October 2019 IFRS 16 adjustment £'000	53 weeks ended 5 October 2019 (including IFRS 16 adjustments)
Assets				
Non-Current assets				
Property, plant and equipment		**22,143**	-	22,143
Right of use assets		-	61,662	61,662
Deferred tax asset		**1,671**	-	1,671
Total non-current assets		**23,814**	61,662	83,476
Current assets				
Inventories		**28,511**	-	28,511
Trade and other receivables		**7,569**	(4,153)	3,416
Derivative financial assets		**2,726**	-	2,726
Cash and cash equivalents		**11,417**	-	11,417
Corporation tax asset		-	-	-
Total current assets		**50,223**	(4,153)	46,070
Total assets		**74,037**	57,509	131,546
Current liabilities				
Trade and other payables		**(28,120)**	4,596	(23,524)
Lease liabilities		-	(21,891)	(21,891)
Derivative financial liability		-	-	-
Bank Loan		-	-	-
Provisions		-	-	-
Corporation tax liability		**(321)**	-	(321)
Total current liabilities		**(28,441)**	(17,296)	(45,736)
Non-current liabilities				
Trade and other payables		**(2,432)**	2,432	-
Lease liabilities		-	(46,798)	(46,798)
Bank Loan		-	-	-
Provisions		**(1,085)**	-	(1,085)
Employee benefit liability		**(9,736)**	-	(9,736)
Total non-current liabilities		**(13,253)**	(44,366)	(57,619)
Total liabilities		**(41,694)**	(61,662)	(103,355)
Net assets		**32,343**	(4,152)	28,191
Equity attributable to equity holders of the company				
Called up share capital		**10,050**	-	10,050
Merger reserve		**38**	-	38
Cash flow hedge reserve		**1,645**	-	1,645
Retained earnings		**20,610**	(4,152)	16,458
Total equity and reserves		**32,343**	(4,152)	28,191

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

1 Accounting policies (continued)

IFRS 16 transition note (continued)

Under previous lease accounting standards (IAS 17), lease costs were recognised on a straight-line basis over the term of the lease and the Company would have recognised these costs within operating expenses this would have been recognised in the 52 week period ended 3 October 2020 if IAS 17 had still been applied. Under IFRS 16 these costs have been removed and replaced with depreciation of the right of use assets and no rent costs in the profit and loss account, which has resulted in an additional charge of £3.2m for the year ended 3 October 2020.

The impact on net financing expense in the 52 week period ended 3 October 2020 was £1.7m.

The net impact of applying IFRS 16 to the profit for the period in the 52 week period ended 3 October 2020 was a reduction of £4.9m after tax. This difference to profit for the period represents a timing difference in the recognition of costs under IFRS 16 compared to IAS 17. IAS 17 recognises costs on a straight-line basis, whereas under IFRS 16 finance charges are recognised in relation to the value of the lease liability and costs will therefore reduce as the liability reduces.

The Company has adopted IFRS 16 Leases retrospectively from 6 October 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 6 October 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 5 October 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 5 October 2019 was 2.94% and was 1.82% at 3 October 2020. If the discount rate was changed by 0.13% this would result in an increase of liabilities in excess of £300,000.

For leases previously classified as finance leases, the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

(i) Practical expedients applied on transition

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 6 October 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 6 October 2019 as short-term leases
- excluding initial direct costs for the measurement of the right of use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and Interpretation 4 determining whether an arrangement contains a Lease.

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

1 Accounting policies (continued)

IFRS 16 transition note (continued)

(ii) Measurement of lease liabilities

The following is a reconciliation of total operating lease commitments at 5 October 2019 (as disclosed in the financial statements to 5 October 2019) to the lease liabilities recognised at 6 October 2019.

Total operating lease commitments disclosed at 5 October 2019	**51,070**
	£'000
<u>Recognition exemptions</u>	
Leases of low value assets	(14)
Leases with remaining lease term of less than 12 months	(95)
Contracts reassessed as lease contracts (prior year operating lease commitment errors)	6,637
Adjustments as a result of a different treatment of extension and termination options	12,313
Variable lease payments not recognised	-
Other adjustments relating to commitment disclosures	(165)
Operating lease liabilities before discounting	69,746
Discounted using incremental borrowing rate	(1,113)
Finance lease obligations	56
Total lease liabilities recognised under IFRS 16 at 6 October 2019	68,689

(iii) Other non-current assets

Sublease assets have been recognised in respect of finance leases under IFRS 16 for a number of the properties which are subleased to third parties. The finance lease is assessed by reference to the right of use asset under the head lease rather than the underlying asset. A number of subleases continue to be accounted for as operating leases which has resulted in no change to their accounting treatment under IFRS 16.

(iv) Lease liabilities

A lease liability is recognised under IFRS 16, representing the Company's contractual obligation to minimum lease payments during the lease term. The lease liability is initially measured at the present value of the remaining lease payments, discounted using the rates based on the Company's incremental borrowing rate. The weighted average discount rate used to discount the lease liability as at 5 October 2019 was 2.94 %. The element of the liability payable in the next 12 months is shown within current liabilities, with the balance shown in non-current liabilities.

(v) Amendment to IFRS 16 for COVID-19 related rent concessions

On 28 May 2020, the IASB issued COVID-19 related Rent Concessions - Amendment to IFRS 16 Leases (the amendment). The Board amended the standard to provide optional relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The amendments do not apply to lessors.

1 Accounting policies (continued)

IFRS 16 transition note (continued)

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related lease concession from a lessor is a lease modification. A lessee that makes this election accounts for any qualifying change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification. A lessee may elect to apply the practical expedient consistently to contracts with similar characteristics and in similar circumstances.

The Company received rent free periods or discounts on some property leases during the year. In addition, some rental payments were deferred. Such amendments have been accounted for as if the lease is unchanged and a separate lease liability recognised where payments have been deferred.

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the conditions described in IFRS 16 paragraph 46B are met. This amendment was effective for financial periods beginning on or after 1 June 2020, however, this amendment has been adopted early by the Company as permitted.

The Company received discounts and free rental periods amounting to £0.2m which have been recognised as a credit in the income statement.

The Company has not factored the dilapidation provision into the right of use as the provision relates to general 'wear and tear' as opposed to structural charges. Under IFRS 16 cash payments for the lease liability are recognised within financing activities. In the prior period operating lease payments under IAS 17 are recognised in operating activities. This has no net impact on the cash flow.

Revenue

Revenue is measured at the fair value of consideration received or receivable net of discounts, returns and VAT. Revenue is recognised when the company has transferred the significant risks and rewards of ownership to the buyer at the point of sale in the shop. At the point of sale a provision is made for the level of expected returns based on previous experience.

Internet sales are recognised when the goods have been paid for, despatched and received by the customer.

Exceptional Items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

The Directors reviewed the treatment of non-underlying items, it was not considered appropriate to show any non-underlying items for the current year or prior year.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as purchase price, cost includes directly attributable costs.

Depreciation is provided on all items of property, plant and equipment so as to write off their carrying value over the expected useful economic lives. It is provided at the following rates:

Freehold and long leasehold	–	50 years on a straight line basis
Short leasehold and leasehold improvements	–	5-10 years on a straight line basis
Fixtures and fittings	–	5-10 years on a straight line basis
Motor vehicles	–	3-5 years on a straight line basis

No depreciation is provided against freehold land. Depreciation is provided against freehold shop properties writing off the original cost less estimated residual value over the useful economic life of the property which is estimated to be 50 years.

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

1 Accounting policies (continued)

Assets under construction

Whilst held under assets under construction, no depreciation is charged on the assets. Once the project is completed, the asset will be transferred to the correct fixed asset category.

Impairment of non-financial assets

The carrying values of non-financial assets are reviewed in conjunction with an independent third party for impairment when there is an indication that assets might be impaired. When the carrying value of an asset exceeds its recoverable amount, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash generating unit (i.e. the smallest Company of assets in which the asset belongs for which there are separable identifiable cash flows).

Impairment charges are included in the consolidated income statement in cost of sales, except to the extent they reverse previous gains recognised in the consolidated statement of comprehensive income.

Inventories

Inventories are initially recognised at cost on a first in first out basis, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Financial assets

The Company classified its financial assets into the categories, discussed below, due to the purpose for which the asset was acquired. The Company has not classified any of its financial assets as held to maturity.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash and cash equivalents include cash in hand and deposits held at call with banks.

Loans and receivables

Loans and receivable assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents included within the consolidated statement of financial position.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

1 Accounting policies (continued)

Financial liabilities

The Company classified its financial liabilities as other financial liabilities which include the following:

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.
- Bank loan – external loan which is valued at its amortised cost and incurs interest.
- Finance costs are charged to the profit and loss account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Derivative financial instruments and hedging activities

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge.

- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.
- The cumulative change in the fair value of the hedging instrument is expected to be between 80-125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged (i.e. it is expected to be highly effective).
- The effectiveness of the hedge can be reliably measured.
- The hedge remains highly effective on each date tested. Effectiveness is tested quarterly.

The Company uses derivative financial instruments such as forward foreign exchange contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially measured at fair value and subsequently remeasured at fair value. The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in cost of sales in the income statement.

Amounts accumulated in equity are reclassified to inventories in the period when the purchase occurs, matching the hedged transaction. The cash flows are expected to occur and impact on profit and loss within 12 months from the year end.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in equity is retained in equity and is recognised when the forecast transaction is ultimately recognised in cost of sales in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities or assets are settled or recovered. Deferred tax balances are not discounted.

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

1 Accounting policies (continued)

Deferred tax assets are offset when the Company has legally enforceable rights to set off current tax assets against current tax liabilities and the deferred tax liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Company; or
- different company entities which intend to either settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets and liabilities are expected to be settled or recovered.

Provisions

Provision for dilapidations is made at the best estimate of the expenditure required to settle the obligation at the reporting date, where material, discounted at the pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability. A dilapidation provision is only recognised on those properties which are likely to be exited. Where such property is identified the full costs expected are recognised. This provision relates to the liability of 'wear and tear' incurred on the leasehold properties and does not include any removal of shop refits as experience indicates that liabilities do not arise for removal of shop refits. Dilapidations are not included in IFRS 16 as they relate to 'wear and tear' and not structural alterations to the buildings.

Foreign exchange

Transactions entered into the Company entities in a currency other than the functional currency are recorded at the average monthly rate prevailing during the period. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date.

Foreign exchange differences are recognised in the profit and loss account.

Retirement benefits – defined contribution and benefit schemes

The Company operates both defined benefit and defined contribution funded pension schemes. The schemes are administered by trustees and are independent of the Company.

Contributions to defined contribution schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

Defined benefit scheme surpluses and deficits are measured at:

- the fair value of plan assets at the reporting date; less
- plan liabilities calculated using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities; plus
- unrecognised past service costs; less
- the effect of minimum funding requirements agreed with scheme trustees.

Re-measurements of the net defined obligation are recognised directly within equity. These include actuarial gains and losses, return on plan assets (interest exclusive) and any asset ceilings (interest exclusive).

Service costs are recognised in the income statement, and include current and past service costs as well as gains and losses on curtailments.

Net interest expense (income) is recognised in the income statement, and is calculated by applying the discount rate used to measure the defined benefit obligation (asset) at the beginning of the annual period to the balance of the net defined benefit obligation (asset), considering the effects of contributions and benefit payments during the period.

Gains or losses arising from changes to scheme benefits or scheme curtailments are recognised immediately in profit or loss.

Settlements of defined benefit schemes are recognised in the period in which the settlement occurs.

1 Accounting policies (continued)

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final and special dividends, this is when approved by the shareholders at the AGM.

2 Critical accounting estimates and judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Accounting estimates and assumptions

Retirement benefits:

The Company's' defined benefit schemes' pension surplus/obligation, which is assessed each period by actuaries, is based on key assumptions including discount rates, mortality rates, inflation, future salary costs and pension costs. These assumptions, individually or collectively, may be different to actual outcomes; refer to note 25 for further details.

Estimated impairment of store assets:

The Company tests whether store assets have suffered any impairment in accordance with the accounting policies stated in note 1. The recoverable amount of cash-generating units is determined on a value-in-use calculation. The method requires an estimate of future cash flows and the selection of a suitable discount rate in order to calculate the net present value of cash flows. The Company has performed a sensitivity analysis on the impairment tests for its store portfolio using various reasonably possible scenarios. An increase of three percentage points in the post-tax discount rate would have resulted in an increase to the impairment charge of £17,000. A decrease of one percentage point in the growth rate after year three would have resulted in an increase to the impairment charge of £7,000.

Estimated useful life of property, plant and equipment:

At the date of capitalising property, plant and equipment, the Company estimates the useful life of the asset based on management's judgement and experience. Due to the significance of capital investment to the Company, variances between actual and estimated useful economic lives could impact results both positively and negatively, see note 11.

Financial instruments and risk management

The Company is exposed to the following financial risks:

- Credit risk;
- Liquidity risk;
- Foreign exchange risk; and

The Company is exposed to risks that arise from its use of financial instruments. The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Trade and other receivables;
- Cash and cash equivalents;
- Forward foreign exchange contracts;
- Trade and other payables.

Fair value hierarchy

All financial instruments measured at fair value must be classified into once of the levels below:

- Level 1: Quoted prices in active markets;
- Level 2: Level 1 quoted prices are not available, but fair value is based on observable market data; and
- Level 3: Inputs that are not based on observable market data.

Judgements

Foreign currency hedge accounting

Company policy is to adopt hedge accounting for cash flows for the purchase of goods for resale. Due to the degree of judgement in determining forecast cash flows there is a risk that the assumptions made in the effectiveness testing are inappropriate.

Discount rate - The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 5 October 2019 was 2.94% and was 1.82% at 3 October 2020. If the discount rate was changed by 0.13% this would result in an increase of liabilities in excess of £300,000.

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

3 Turnover and geographical analysis

The turnover is attributable to the sales of goods by the Company. The geographical and category analysis of the Company's turnover (by location of customers and category) is as follows:

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
United Kingdom	**100,098**	146,928
Digital	**19,296**	10,592
Republic of Ireland	**2,678**	3,838
Other	**496**	689
	122,568	162,047

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

4 Expenses by nature

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Inventories recognised as an expense	**41,858**	52,198
Carriage charges on purchases	**1,800**	2,687
Duty charges on purchases	**3,940**	5,743
Employee benefit expense	**33,054**	39,488
Depreciation and Impairment charge of property, plant and equipment	**7,695**	6,199
Depreciation of right of use asset	**24,112**	-
Depreciation held on finance lease	**16**	2
Operating lease expense:		
- Other	**82**	626
- Land and buildings	**1,303**	21,364
Loss on disposal of property, plant and equipment	**526**	92
Profit on disposal of right of use asset	**(113)**	-
Administration expenses	**12,378**	19,619
(Gain) / loss on foreign exchange	**(30)**	(385)
Other costs	**8,481**	7,388
	135,102	155,021

5 Auditor's remuneration

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**55**	48
	55	48

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

6 Employees

The average monthly number of employees, including directors, during the financial period was as follows:

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	Number	Number
Sales and distribution	**3,275**	3,351
Administration	**153**	168
	3,428	3,519

Staff costs, including directors, consist of:

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Wages and salaries	**30,534**	36,363
Social security costs	**1,614**	2,061
Pension costs (note 25)	**906**	1,064
	33,054	39,488

Wages and salaries in 2020 include the benefit of furlough income of £5,039,000.The average monthly number of full time equivalent employees during the period was 1,698 (2019:1,737).

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

7 Directors' emoluments

Directors' emoluments consist of:

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Remuneration for management services	**263**	215
Contributions to defined contributions scheme	**28**	22
	291	237

The highest paid director received remuneration for management services of £184,000 (53 Weeks ended 5 October 2019: £159,000) and contributions to a defined contribution scheme of £16,000 (53 Weeks ended 5 October 2019: £17,000).

Certain directors receive emoluments from Shoe Zone Retail but have employment contracts with Shoe Zone plc for their services to all Company companies. It is not considered practical or possible to accurately apportion these costs to each entity in the Company. The effect of not apportioning these costs for disclosure purposes is not considered to be material.

No directors are accruing benefits under defined benefit pension schemes in the current or prior period.

The directors are members of the following Company pension schemes:

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	Number	Number
Defined contribution scheme	**2**	2

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

8 Finance income and expense

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Finance income		
Interest receivable	**10**	44
	10	44
Finance expense		
Interest expense on lease liability	**(1,684)**	-
Net interest expense on defined benefit pension scheme	**(163)**	(172)
Loan interest	**(50)**	
Other	**(4)**	
	(1,901)	(172)

9 Taxation

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Current tax expense		
Current tax: UK corporation tax charge on profit for the period	**-**	1,442
Adjustments to corporation tax in respect of prior periods	**(20)**	(64)
	(20)	1,378
Deferred tax expense		
Adjustment for over provision in prior periods	**(994)**	(348)
Origination and reversal of timing differences (note 20)	**(1,684)**	(45)
Total tax (credit)/charge	**(2,698)**	985

9 Taxation (continued)

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
(Loss)/Profit on ordinary activities before tax	**(14,425)**	6,899
(Loss)/Profit on ordinary activities multiplied by standard rate in the UK 19.0% (2019: 19.0%)	**(2,741)**	1,311
Effects of:		
Expenses not deductible for tax purposes	**1,211**	379
Income not taxable	**-**	(262)
Effective change of rate	**134**	4
Unrecognised deferred tax movement	**(288)**	-
Company relief	**-**	(34)
Adjustments to tax charge in respect of previous period	**(1,014)**	(413)
	(2,698)	985

Factors that may affect future tax charges:

The standard rate of Corporation Tax in the UK reduced from 20% to 19% with effect from 1 April 2017. Accordingly the Company's profits for this accounting period are taxed at an effective rate of 19.0%. The standard rate will fall further to 17% with effect from 1 April 2020. These rates were enacted during the current year and deferred tax balances have been stated at a rate at which they are expected to reverse.

10 Dividends

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Dividends paid during the year Nil (2019: 19.5p) per share	**-**	9,750
	-	9,750

11 Property, plant and equipment

	Freehold and long leasehold properties	Short leasehold and leasehold improvements	Motor vehicles	Fixtures and fittings	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 29 September 2018	8,769	18,539	34	34,669	-	62,011
Additions	318	2,570	80	4,004	360	7,332
Disposals	-	(324)	-	(1,203)	-	(1,527)
Impairments	(2,838)	(105)	-	-	-	(2,943)
Assets under construction	-	-	-	-	-	-
At 5 October 2019	6,249	20,680	114	37,470	360	64,873
Additions	-	590	-	2,219	-	2,809
Disposals	-	(1,485)	-	(1,943)	-	(3,428)
Impairments	-	-	-	-	-	-
Assets under construction	-	125	-	235	(360)	-
At 3 October 2020	**6,249**	**19,910**	**114**	**37,981**	**-**	**64,254**
Depreciation						
At 29 September 2018	1,066	13,732	18	26,092	-	40,908
Charge for the period	57	1,098	7	2,096	-	3,258
Disposals		(318)	-	(1,118)	-	(1,436)
Impairments	-	-	-	-	-	-
At 5 October 2019	1,123	14,512	25	27,070	-	42,730
Charge for the period	54	1,043	22	2,426	-	3,545
Disposals	-	(1,335)	-	(1,819)	-	(3,154)
Impairments	2,447	717	-	1,002	-	4,166
At 3 October 2020	**3,624**	**14,937**	**47**	**28,679**	**-**	**47,287**
Net book value						
At 3 October 2020	**2,625**	**4,973**	**67**	**9,302**	**-**	**16,967**
At 5 October 2019	5,126	6,168	89	10,400	360	22,143
At 29 September 2018	7,703	4,807	16	8,577	-	21,103

12 Leases and Right of Use Assets

The majority of the Company's trading stores are leased under operating leases. The Company also has a number of non-property operating leases relating to vehicles and an item of equipment in the Distribution Centre.

Information about leases for which the Company is a lessee is presented below:

	Property	Motor vehicles and equipment	Total
		£'000	£'000
Cost			
Balance at 5 October 2019	60,528	1,134	61,662
Additions	5,435	271	5,706
Disposals	(1,159)	(2)	(1,161)
At 3 October 2020	**64,804**	**1,403**	**66,207**
Depreciation			
Balance at 5 October 2019	-	-	-
Charge for the period	18,456	521	18,977
Disposals	(292)	-	(292)
Impairment	5,135	-	5,135
At 3 October 2020	**23,299**	**521**	**23,820**
Net book value			
At 3 October 2020	**41,505**	**882**	**42,387**
At 5 October 2019	60,528	**1,134**	61,662

The Company costs for those leases for which the practical expedient was applied described in Accounting Policies: IFRS 16 Leases, amounted to £292,000 in the 52 weeks ended 3 October 2020.

The table below sets out the maturity analysis of future lease payments:

Maturity analysis – contracted undiscounted cash flows

	52 weeks ended 3 October 2020	53 weeks ended 5 5 October 2019
	£'000	£'000
Less than one year	**16,660**	30,887
Between one and five years	**32,454**	31,119
More than five years	**6,986**	6,549
Total undiscounted lease liabilities	**56,100**	68,555

Carrying value of lease liabilities included in balance sheet	**57,389**	-
Current	**19,914**	-
Non-current	**37,475**	-

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

12 Leases (continued)

Operating Leases

The Company has a number of stores on short-term rental and a small number of outlets where a subsection are sublet to third parties at a contracted rate. The Company has classified these leases as operating leases because they do not transfer substantially all the risks and rewards of the right of use asset.

In line with IAS36 the carrying value of the right of use-asset is assessed for impairment and booked where necessary.

13 Stocks

	52 weeks ended 3 October 2020	5 October 2019
	£'000	£'000
Goods for resale	**26,295**	27,838
Shop-fitting materials and other consumables	**403**	673
	26,698	28,511

14 Debtors

	3 October 2020	5 October 2019
	£'000	£'000
Trade debtors	**582**	396
Amount owed by Group undertakings	**1,660**	1,549
Other debtors	**682**	373
Prepayments and accrued income	**1,459**	5,251
Financial derivative liability (note 18)	**(105)**	2,726
	4,278	10,295

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

15 Creditors: amounts falling due within one year

	52 weeks ended 3 October 2020	5 October 2019
	£'000	£'000
Trade creditors	**6,401**	12,335
Amounts owed to Group undertakings	**712**	712
Social security and other taxes	**460**	2,097
Corporation tax	**-**	321
Other creditors	**362**	652
Accruals	**10,013**	12,268
Finance lease	**64**	56
Loan	**1,944**	-
Lease liability	**19,914**	-
	39,870	28,441

Amounts owed to Company undertakings are unsecured and repayable on demand.

16 Creditors: amounts falling due after more than one year

	52 weeks ended 3 October 2020	5 October 2019
	£'000	£'000
Accruals	**-**	2,432
Loan	**5,056**	-
Lease liability	**37,475**	-
	42,531	2,432

Non-current accruals for prior year relate to rental liabilities, these are now included in IFRS 16 (note 12)

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

17 Loans

	52 weeks ended 3 October 2020 £'000	53 weeks ended 5 October 2019 £'000
Amounts falling due within one year		
Bank Loans	**1,944**	-
Amounts falling due within 1-2 years		
Bank loans	**2,333**	-
Amounts falling due within 2-5 years		
Bank loans	**2,723**	-
	7,000	-

The bank loan is provided by National Westminster Bank plc under their COVID-19 Large Business Interruption Scheme. The loan is repayable over 36 monthly payments of £194,000. It is subject to an interest rate of 1.22% over base increasing to 1.72% over base rate in May 2021.

After the year-end the Company extended the loan by a further £5 million. National Westminster Bank plc holds a fixed and floating charge over the Company's property and assets.

18 Derivative financial instruments

At the balance sheet date, details of the forward foreign exchange contracts that the Company has committed to are as follows:

	52 weeks ended 3 October 2020 £'000	53 weeks ended 5 October 2019 £'000
Derivative financial (liabilities) / assets		
Derivatives not designated as hedging instruments	**34**	744
Derivatives designated as hedging instruments	**(139)**	1,982
Total Derivative financial instruments	**(105)**	2,726

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets/liabilities in the balance sheet.

The notional principal amounts of outstanding forward foreign exchange contracts at 3 October 2020 were $71,250,000 (5 October 2019: $59,700,000). The fair value of the forward foreign exchange contracts are within the level 2 of the fair value hierarchy and have been valued on the basis of observable market data. The key input into the valuation are market rates of financial instruments at the balance sheet date.

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

19 Provisions for liabilities and charges

	Dilapidation	Customer Returns	Total
	£'000	£'000	£'000
As at 5 October 2019	1,044	41	1,085
Additions	1,797	28	1,825
Amounts utilised	(138)	(41)	(179)
Amounts released	-	-	-
As at 3 October 2020	**2,703**	**28**	**2,731**

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease.

For all products, the Company has incurred an obligation to exchange the item if it is faulty due to a lack of quality or give the client a refund if they are not satisfied. Revenue from the sale of the products is recognised once the product is sold, however, a provision for customer returns based on previous experience is recognised at the same time.

20 Deferred tax

Deferred tax is calculated in full on temporary differenced under the liability method using a tax rate of 17% (2019: 17%)

The movement on the deferred tax account as shown below:

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Opening balance	**1,671**	697
Recognised in profit and loss:		
Tax expense (note 9)	**2,684**	393
Recognised in other comprehensive income:		
Actuarial gain / loss on defined benefit pension schemes	**899**	707
Cash flow hedge	**363**	(126)
Closing balance	**5,617**	1,671

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

20 Deferred tax (continued)

The deferred tax asset has arisen due to the following:

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Accelerated capital allowances	**1,361**	1,279
Ineligible buildings	**(540)**	(920)
Short term timing differences	**20**	(343)
Loss for the financial year	**2,126**	-
IFRS 16 transitional adjustment	**631**	-
Defined benefit pension scheme	**2,013**	1,655
	5,611	1,671

21 Contingent liabilities

Shoe Zone plc and subsidiary undertakings have given a duty deferment guarantee in favour of HM Revenue and Customs amounting to £800,000 (5 October 2020: £800,000).

22 Share capital

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Allotted, called up and fully paid:		
10,050,000 ordinary shares of £1 each (equity) (5 October 2019: 10,050,000 ordinary shares at £1 each)	**10,050**	10,050
	10,050	10,050

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

23 Commitments under operating leases

Operating leases - lessee

The Company has entered into commercial leases on land and buildings. These leases have an average life of between five and ten years. There are no restrictions placed on the Company by entering into these leases. The total future minimum lease payments under non-cancellable operating leases for land and buildings and other items of plant and machinery are as follows:

	Property	Property
	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	
Expense relating to short-term leases	**292**	-
Expense relating to variable lease payments	**29**	-
	321	-

The majority of leases are now included within IFRS 16 (note 12).

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

24 Capital commitments

At the period end, authorised and committed capital expenditure amounted to £ NIL (5 October 2019: £28,000).

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

25 Pension costs

Defined contribution scheme

The Company operates a defined contribution pension scheme namely Shoe Zone Worksave Pension Plan contributions amounted to £906,000 (05 October 2019: £1,064,000).

Defined benefit scheme

The Company operates two other pension schemes in the UK: the Shoe Zone Pension Scheme and the Shoefayre Limited Pension and Life Assurance Scheme. The Shoe Zone Pension Scheme provided benefits on a defined benefit basis for service up to 30 September 2001. For service after that date, benefits are provided on a defined contribution basis. The Shoefayre Limited Pension and Life Assurance Scheme provided benefits on a defined benefit basis but was closed to future accrual on 30 June 2009. The scheme was acquired on the purchase of Shoefayre Limited on 19 September 2007. The assets of all schemes are held in separate trustee administered funds. There have been no contributions to the scheme this year, last year was also nil.

The schemes are exposed to a number of risks, including:

- Investment risk: movement of discount rate used (high quality corporate bonds) against the return from plan assets,
- Interest rate risk: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation,
- Longevity risk: changes in the estimation of mortality rates of current and former employees.

Amounts recognised in the balance sheet at 3 October 2020

	52 weeks ended October 2020	53 weeks ended 5 October 2019
		£'000
Fair value of assets	**87,850**	86,683
Present value of funded obligations	**(94,724)**	(92,232)
Impact of asset ceiling	**(3,720)**	(4,187)
Deficit	**(10,594)**	(9,736)

Amounts recognised in other comprehensive income

		3 October 2020		5 October 2019
		£'000		£'000
Return on plan assets		**1,360**		9,311
Actuarial losses arising from changes in:				
Demographic assumptions	**277**		(206)	
Financial assumptions	**(4,293)**		(14,005)	
Financial assumptions	-		2,561	
Total actuarial gain		**(4,016)**		(11,650)
Impact of asset ceiling		**542**		(1,838)
Deferred tax on employee benefit scheme		**899**		707
Total amount recognised in other comprehensive income		**(1,215)**		(3,470)

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

25 Pensions (continued)

The figures below are based on a full actuarial valuation performed in April 2016 and March 2016 for the Shoe Zone and Shoefayre schemes respectively which was carried out by a qualified independent actuary. This actuarial valuation has been updated to 5 October 2019 for the purpose of calculating the pension surplus and disclosures in the current period.

Post retirement mortality

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
Life expectancy	**Years**	Years
Male currently aged 45	**88**	89
Female currently aged 45	**90**	90
Male currently aged 65	**87**	87
Female currently aged 65	**89**	89

Financial assumptions

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	%	%
Deferred pension revaluation	**2.40**	2.55
Pension increases	**3.10**	3.40
Discount rate	**1.40**	1.80
Consumer Price Index	**2.40**	2.55
Retail Price Index	**3.20**	3.55

The weighted average duration of the defined benefit obligation for the Shoe Zone scheme at 3 October 2020 is 14 years (5 October 2019: 17 years).

The weighted average duration of the defined benefit obligation for the Shoefayre scheme at 3 October 2020 is 16 years (5 October 2019: 19 years).

Defined benefit scheme - Shoe Zone Pension Scheme
Assets

The major categories of assets as a percentage of total assets are as follows:

Asset Category	**52 weeks ended 3 October 2020**	53 weeks ended 5 October 2019
Equities	**17%**	16%
Property	**0%**	9%
Gilts/bonds	**17%**	16%
Cash	**11%**	0%
Diversified Growth Funds	**33%**	35%
Liability Driven Investment	**22%**	24%
	100%	100%

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

25 Pensions (continued)

The actual return on the Scheme's assets net of expenses over the period to the review date was a gain of £2,288,000 (2019: £7,253,000).

The assets do not include any investments in shares of the Company.

The expected return on assets is a weighted average of the assumed long-term returns available on high quality corporate bonds in line with the method used to value the liabilities. Equity and property returns are developed based on the selection of an appropriate risk premium above the risk free rate which is measured in accordance with the yield on the government bonds. Bond returns are selected by reference to the yields on the government and corporate debt, as appropriate to the scheme holdings of these instruments. The expected returns on the Target Return Funds are equal to the fund's targets.

Amounts recognised in the profit and loss over the period

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Interest cost	**(859)**	(1,284)
Expected return on assets	**934**	1,352
Interest on asset restriction	**(75)**	(68)
	-	-

Amounts recognised in the balance sheet

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Fair value of assets	**53,264**	52,822
Present value of funded obligations	**(49,544)**	(48,635)
Surplus	**3,720**	4,187
Impact of asset ceiling	**(3,720)**	(4,187)
Net defined benefit liability	**-**	-

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

25 Pensions (continued)

Defined benefit scheme - Shoe Zone Pension Scheme (continued)

Amounts recognised in other comprehensive income

		52 weeks ended 3 October 2020 £'000		53 weeks ended 5 October 2019 £'000
Return on plan assets		**1,354**		5,901
Actuarial gains arising from changes in:				
Demographic assumptions	**171**		1,378	
Financial assumptions	**(2,066)**		(7,206)	
Total actuarial gain		**(1,895)**		(5,828)
Changes in effect of asset ceiling		**542**		(1,838)
Deferred tax on employee benefit scheme		**198**		19
Total amount recognised in other comprehensive income		**199**		(1,746)

Reconciliation of assets and defined benefit obligation

The change in assets over the period was:

	52 weeks ended 3 October 2020 £'000	53 weeks ended 5 October 2019 £'000
Fair value of assets at the beginning of the period	**52,822**	47,381
Expected return on assets	**934**	1,352
Company contributions	**46**	102
Benefits paid	**(1,892)**	(1,914)
Actuarial gain	**1,354**	5,901
Fair value of assets at the end of the period	**53,264**	52,822

25 Pensions (continued)

Defined benefit scheme - Shoe Zone Pension Scheme (continued)

The change in defined benefit obligation over the period was:

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Defined benefit obligation at the beginning of the period	48,635	45,091
Interest cost	859	1,284
Benefits paid	(1,892)	(1,914)
Actuarial gain	1,942	4,174
Defined benefit obligation at the end of the period	49,544	48,635

During 2020 contributions of £46,000 were made.

Sensitivity of the value placed on the liabilities:

Adjustments to assumptions	Approximate effect on liabilities
Discount rate	
Plus 0.50%	-7%
Minus 0.50%	+8%
Inflation	
Plus 0.50%	+2%
Minus 0.50%	-1%
Life Expectancy	
Plus 1.0 years	+4%
Minus 1.0 years	-4%

Note that the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

25 Pensions (continued)

Defined benefit scheme - Shoefayre Limited Pension and Life Assurance Scheme

The Company operates the Shoefayre Limited Pension and Life Assurance Scheme. The scheme provided benefits on a defined benefit basis but was closed to future accrual on 30 June 2009.

The major categories of assets as a percentage of total assets are as follows:

Asset Category	**52 weeks ended 3 October 2020**	53 weeks ended 5 October 2019
Equities	**21%**	19%
Property	**0%**	11%
Gilts/bonds	**9%**	9%
Cash	**4%**	0%
Diversified Growth Funds	**44%**	38%
Liability Driven Investment	**22%**	23%
	100%	100%

The actual return on the Scheme's assets net of expenses over the period to the review date was a gain of £616,000 (5 October 2019: £4,277,000). The assets do not include any investments in shares of the Company.

The expected return on assets is a weighted average of the assumed long-term returns available on high quality corporate bonds in line with the method used to value the liabilities. Equity and property returns are developed based on the selection of an appropriate risk premium above the risk free rate which is measured in accordance with the yield on the government bonds. Bond returns are selected by reference to the yields on the government and corporate debt, as appropriate to the scheme holdings of these instruments. The expected returns on the Target Return Funds are equal to the fund's targets.

Amounts recognised in the balance sheet

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Fair value of assets	**34,586**	33,861
Present value of funded obligations	**(45,180)**	(43,597)
Net liability	**(10,594)**	(9,736)

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

25 Pensions (continued)

Defined benefit scheme - Shoefayre Limited Pension and Life Assurance Scheme (continued)

Amounts recognised in other comprehensive income

		52 weeks ended 3 October 2020		53 weeks ended 5 October 2019
		£'000		£'000
Loss on plan assets		**6**		3,410
Actuarial gains arising from changes in:				
Demographic assumptions	**106**		(1,584)	
Financial assumptions	**(2,227)**		(6,799)	
Total actuarial loss		**(2,121)**		(8,383)
Deferred tax on employee benefit scheme		**701**		688
Total amount recognised in other comprehensive income		**(1,414)**		(4,285)

Amounts recognised in the profit and loss over the period

	52 weeks ended 3 October 2020	53 weeks ended 5 October 2019
	£'000	£'000
Interest cost	**(773)**	(1,039)
Expected return on assets	**610**	867
	(163)	(172)

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

25 Pensions (continued)

Defined benefit scheme - Shoefayre Limited Pension and Life Assurance Scheme (continued)

Reconciliation of assets and defined benefit obligation

The change in assets over the period was:	**52 weeks ended 3 October 2020**	53 weeks ended 5 October 2019
	£'000	£'000
Fair value of assets at the beginning of the period	**33,861**	30,036
Expected return on assets	**610**	867
Employer contributions	**1,420**	779
Benefits paid	**(1,311)**	(1,231)
Actuarial loss on assets	**6**	3,410
Fair value of assets at the end of the period	**34,586**	33,861

The change in defined benefit obligation over the period was:	**52 weeks ended 3 October 2020**	53 weeks ended 5 October 2019
	£'000	£'000
Defined benefit obligation at the beginning of the period	**43,597**	36,332
Interest cost	**773**	1,039
Benefits paid	**(1,311)**	(1,231)
Actuarial gain on obligation	**2,121**	7,457
Defined benefit obligation at the end of the period	**45,180**	43,597

During 2020 contributions of 1,420,000 were made. Discussions are continuing with the trustees of the pension scheme regarding finalisation of the 2019 actuarial valuations and recovery plans.

Notes to the financial statements for the 52 weeks ended 3 October 2020 (continued)

25 Pensions (continued)

Defined benefit scheme - Shoefayre Limited Pension and Life Assurance Scheme (continued)

Sensitivity of the value placed on the liabilities:

Adjustments to assumptions	Approximate effect on liabilities
Discount rate	
Plus 0.50%	-8%
Minus 0.50%	+10%
Inflation	
Plus 0.50%	+5%
Minus 0.50%	-4%
Life Expectancy	
Plus 1.0 years	+4%
Minus 1.0 years	-4%

Note that the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

26 Related party transactions

During the period, rent of £147,000 (5 October 2019: £163,000 paid on four properties) was paid on four properties leased by the Company to the Zone Executive Pension Scheme.

27 Parent company

The ultimate parent undertaking and controlling party is Shoe Zone plc, which is the parent undertaking of the smallest and largest Group to consolidate these financial statements. Copies of Shoe Zone plc's consolidated financial statements can be obtained from the Company Secretary at Haramead Business Centre, Humberstone Road, Leicester, LE1 2LH.

28 Subsidiary Undertakings

The subsidiaries of the Company, all of which have been included in the financial statements, are as follows:

Name of investment	Place of incorporation	Principal activity	Ownership
Shoe Zone (Ireland) Limited	England & Wales	Non-trading company	100% owned by Shoe Zone Retail Limited

The registered address of the above company is Haramead Business Centre, Humberstone Road, Leicester, LE1 2LH.