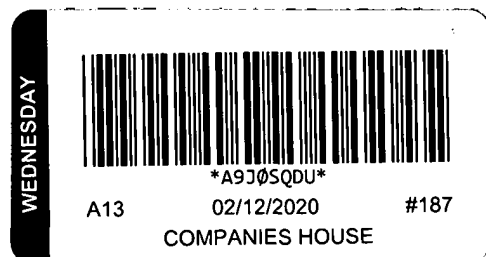


JD Williams & Company Limited

Annual report and financial statements

Registered number 00178367

52 weeks ended 29 February 2020



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Strategic Report

Business review

The principal activity of J. D. Williams & Company Limited (the 'Company') continues to be retailing through direct home shopping as part of N Brown Group plc (the 'Group').

As part of N Brown Group plc, the company has five strategic pillars set out below, each underpinned by our people, culture, data and a sustainable cost base:

- Distinct brands to attract a broader range of customers.
- Improved product to drive customer frequency
- New Home offering for customers to shop more across categories
- Enhanced digital experience to increase customer conversion
- Flexible credit to help customers shop

Covid-19

Post year end the WHO declared Covid-19 as a global pandemic, and the UK suffered wide ranging impacts in the months shortly following the Company's year-end. The Company's absolute priority has been to protect the wellbeing of its employees, both across the distribution centres and at Head Office, whilst maintaining continuity of service for its customers. The directors are immensely grateful for the effectiveness and dedication which all employees and supplier partners have shown in adapting to a more flexible way of working during this difficult period and their continued unstinting commitment to supporting our loyal customer base. For information on how Covid-19 has impacted our risk management practices see page 2.

The Company took a number of immediate and proactive measures in the early part of the next financial year in order to protect the continuing business by reducing costs and strengthening liquidity, including: a significant reduction in marketing expenditure; cessation and deferral of all non-essential capital expenditure; the furloughing of 30% of employees across the business; recruitment and salary freezes; voluntary pay reductions from April to June for plc Board, Management Board and senior leadership team; and agreement with HMRC to defer certain tax and duty payments associated with our normal operating activities as well as certain legacy tax payments which were expected to be paid in H1 FY21. Further detail on the expected financial impacts have been included in note 27.

Results and dividends

Revenue decreased by £48.3 million (5.5%) during the period to £833.3 million. We have moved from a loss to a profit position where the profit before tax has increased by £95.7 million to a profit before tax of £31.0 million primarily as a result of a reduction in the exceptional items as described in note 2.

Results, dividends and recommended transfers to/(withdrawals from) reserves are as follows:

	52 weeks ended 29 February 2020 £'000
Retained profit at 2 March 2019	20,416
Profit for the financial period	23,631
Recognition of defined benefit pension scheme gains, net of deferred tax	556
Debit to equity for equity settled share based payment	(1,278)
Dividends paid	-
Transition Adjustment on initial application of IFRS 16 (net of tax)	(482)
	<hr/>
Retained profit at 29 February 2020	42,843 <hr/>

Strategic Report (*continued*)

Key performance indicators

The directors use a number of key performance indicators (“KPIs”) to monitor the progress of the Company, including:

	52 weeks ended 29 February 2020	52 weeks ended 2 March 2019
Sales	£833.3m	£881.6m
Gross margin	51.1%	54.3%
Operating margin	5.6%	(5.5%)
Financial services Arrears rate %	8.5%	8.9%
EBITDA	£57.1m	(£39.2m)

Other KPIs include the proportion of internet sales being 86% for 2020 (2019: 80%) and the customer satisfaction score as measured by the UK Customer Service Institute was up 50bps to 86.3%.

Risks and uncertainties

There are a number of risks and uncertainties, which could have an impact on the Company’s long-term performance. The Company’s parent entity, N Brown Group plc (“the Group”), has identified a set of primary risks with the potential to impact on performance and the delivery of the strategic roadmap in year or through the planning cycle, which are also relevant to the Company.

14 primary risks have been defined under the Group’s Risk Management Framework approach:

- I. Strategic;
- II. Business Resilience;
- III. Change Management;
- IV. Process; People; Supplier;
- V. Financial; Conduct;
- VI. Legal and Regulatory;
- VII. Financial Crime;
- VIII. Technology;
- IX. Data;
- X. Information Security; and
- XI. Credit Risk.

Control enhancements are identified routinely and on a continuous basis as the Risk Management Framework is rolled out across each primary risk category.

Covid-19 and its related impacts continues to dominate the Company’s near-term operational risk horizon. Stress-test and scenario planning has been undertaken in relation to a range of extreme but plausible scenarios which include the impact on demand for retail goods resulting from a downturn in consumer confidence, the ability of our credit customers to maintain contractual payments, and loss of operational continuity arising from local, regional and national lock-down restrictions.

Management maintains reasonable assurance over the Company’s outlook across the range of scenarios modelled but acknowledges that the profile of risks related to the Covid-19 pandemic is subject to rapid change and significant uncertainty. Medium and longer-term macro-economic and social impacts are difficult to determine and the modelling that has been undertaken does not include the most severe of possibilities.

Strategic Report (*continued*)

Risks and uncertainties (*continued*)

Strategic & Business Resilience - The Company is continuing to manage specific risks in relation to Covid-19 and Brexit. The Board has continued to monitor Brexit impacts and mitigations with management throughout the year via the business's Brexit Steering Committee actions and outputs. Management have a comprehensive and appropriate set of mitigations in place to ensure the least disruption is incurred by the business in each of the areas of risk identified - most significantly in relation to supply chain continuity and tariff arrangements. While there continues to be significant uncertainty in relation to the Brexit scenario and the related impacts, the Company continues to plan for the potentially significant impact of a 'no deal' Brexit. As such we do not consider the outlook for the impact of Brexit related risk to have materially changed in the period under review.

The risk of continued business interruption is likely to remain the new-norm for the foreseeable future in the context of Covid-19. The business has continued to perform well in the context of restrictions and impacts related to the pandemic. Resilience, continuity, and disaster recovery capability has been successfully exercised and significantly real-world stress-tested through Covid-19 incident management.

Change Management & Process - Despite the constraints presented by the pandemic scenario the Company has made significant progress against its change and transformation agenda over the past 18 months and has adopted a more agile, squad-based change and transformation methodology. The profile of change has increased significantly since year-end with a raft of key strategic change initiatives initiating or delivering within the period. The adoption of enhanced change methodologies, in parallel with the roll-out of risk-control self-assessments for key functional areas deploying change, and the development of risk, delivery and operational assurance models for strategic change programmes such as Financial Services Platform has improved the Company's overall change management and change control capability in relation this risk. Enhanced pre and post implementation review arrangements and incident management routines have also been under development since year-end.

People & Suppliers - There has been a continuing focus on optimising the cost base and organisational structure during the period with the realisation of right-sizing of people costs aligned to lower levels of customer demand, and as the Company further develops the capabilities appropriate to a digital retailer, embeds a values and behaviour culture and launches its diversity and inclusion strategies. The Company has made continued use of the Coronavirus Job Retention Scheme and has reviewed and maintained strong relationships with supply chain partners.

Management acknowledges that the profile of risks related to the Covid-19 pandemic is subject to rapid change and significant uncertainty, as such the Company considers that risks related to colleague well-being and availability are likely to remain prevalent for the duration of the pandemic.

The Company has ensured that its workspaces and facilities comply with the strictest application of UK Gov Workplace Guidance and with the British Retail Consortiums Gold Standard requirements. Arrangements have been reviewed by Public Health England and appropriate Local Healthy Authorities and Councils and deemed to be sector leading. The Company continues to make the safety of colleagues a primary concern and colleagues who are able to work from home effectively are being asked and supported to do so on a continuing basis.

The Company operates facilities and premises that have fallen within areas of higher tiered restriction or local lock-down for the vast majority of the pandemic. Despite this, and as a result of clear colleague communications and effective adoption of Covid-19 workplace guidance, employee absence has tracked only nominally above the normative range, and rates of reported Covid-19 infection amongst colleagues remains significantly below national averages. Stress-scenario continuity plans were developed at the start of the crisis and are reviewed weekly in the context of local, regional, and national trends, advice and guidance to ensure the resilience and continuity of the Company's operations. Management have determined that no increased risk is presented to the Company as a result of the cessation of the Coronavirus Job Retention Scheme currently planned for March.

Financial - Consumer sentiment and engagement remains a key risk - particularly in relation to the profile of retail demand and the ability of credit customers to maintain their contractual payments. Already fragile consumer confidence in the retail and financial services sectors will likely be impacted further by the continued risk of economic downturn as a result of continued Brexit uncertainty and in the context of the downstream impacts of the Coronavirus pandemic.

Treasury and working capital risk management activity has continued during the period. A focus on management of costs and cash generation from ongoing trading have helped to further mitigate risks. The Company has made use of the Coronavirus

Strategic Report (*continued*)

Risks and uncertainties (*continued*)

Job Retention Scheme and renegotiated with its existing banking partners to safeguard the continuity of funding arrangements and mitigate risks related to cashflow.

Conduct, Legal and Regulatory & Financial Crime - The regulatory landscape is likely to remain challenging for some time as the FCA and ICO focus on the heightened risks to consumers posed by Covid-19 and related economic and operational impacts. Current thematic work around vulnerable customers, financial difficulties and affordability is likely to have a higher profile in the context of the pandemic.

The Company continuously monitors and assesses all applicable areas of regulatory change and responds accordingly and has through the period continued to upweight its control, compliance and risk management capability through the delivery of an enhanced risk management framework. Significant work has already been undertaken in relation to the identification and treatment of our most vulnerable customers and around affordability and creditworthiness. The delivery of fair outcomes and ongoing support and forbearance to customers impacted by Covid-19 remains a key area of focus, however, no new areas of regulatory focus have been identified during the period.

Technology - The Company has continued to improve the profile of risks related to a reliance on legacy IT estate and end of life systems since year end through the development of arrangements with strategic outsource partners and actions and plans to further decouple and de-risk monolithic IT infrastructures.

Data & Information Security - The harnessing of Data as a key enabler of our strategy remains a key area of focus. Enhanced routines and control standards to protect our data assets and our customers personal data have been introduced during the period and continue to mature. While the risk of cyber-attack and fraud increased exponentially through the first period of the pandemic and is likely to remain prevalent, the Company has continued to invest in a range of tactical, organisational, systemic and systematic controls to improve our data security environment.

Credit - The Company's Credit offering remains a key enabler of product sales as well as a revenue and margin stream. Conditions have remained challenging during the period with the Company having to implement iterative FCA Covid-19 related lending policies at extremely short notice. The impact of Covid-19 on the broader macro-economic scenario continues to give rise to the increased risk of bad-debt and adverse shifts in payment and arrears rates. However, the Company has fared well to date, adopting as it has an approach predicated on responsible lending and delivering good customer outcomes and as yet there has been no marked deterioration in customer behaviour. The Company's credit risk appetite remains under continuous review and the quality of the loan book and lending decisions continue to improve, as does the Company's collections capability.

Future prospects

The Company's future developments form a part of the Company's long-term strategy, which is discussed from page 9 of the Group's Annual Report for the 52 week period ended 29 February 2020, which does not form part of this Report.

Approval

This annual report was approved by the board of directors on 24 November 2020 and signed on its behalf by:



Rachel Izzard
Director

24 November 2020

Engagement with Stakeholders – Section 172 Statement

Section 172(1) of the Companies Act 2006 states that the Directors of a company must act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole and in doing so have regard, in addition to other matters, to:

- The likely long-term consequences of decisions,
- The interests of the Company's employees,
- The need to foster the Company's business relationships with suppliers, customers and others,
- The impact of the Company's operations on the community and the environment,
- The desirability of the Company maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between the Company's owners.

The Board is mindful that our success relies on our ability to engage meaningfully with stakeholders, taking their views into account when making decisions on behalf of the Company. By understanding our stakeholders, we can ensure that an appropriately diverse range of needs and concerns are considered in both the day-to-day running of the business as well as in its longer-term strategy.

Methods and level of engagement vary according to the stakeholder group being addressed and the Company takes comfort from the activities of the N Brown Group plc Board in a number of areas further disclosed within this statement, alongside its Executive Board, senior leadership team and colleagues as required. The Company engages both proactively and reactively with stakeholders.

Throughout the year, the Board engaged with stakeholders on a number of principal matters across a variety of forums and is proud to report on these activities in its first Section 172 Statement.

Decision making by the board

The responsibilities of the Board are clearly documented in the Company's Articles and Schedule of Matters reserved for Board approval. All matters that require the Board to reach a decision are presented at Board meetings. Supporting papers on these matters are provided to Directors ahead of the meeting and set out the background, the reasons for the proposal and the associated costs, benefits and risks. The papers also highlight any potential impacts and risks to relevant stakeholder groups and how they are to be managed.

The Directors take all factors into account before making informed decisions. The fair treatment of relevant stakeholders is always considered, although the Board acknowledge that not every outcome will always benefit each stakeholder group. Decision-making by the Board balances the need to generate sufficient profit in order sustain the business commercially against the needs of our various stakeholders and, ultimately, the long-term sustainable success of the Company.

We are committed to maintaining the highest standard of business conduct; each and every decision of the Board is made on the basis of best ethical practice. We want all stakeholders to be comfortable in the knowledge that our business decisions are made with the intention of doing the right thing for the planet and its people.

Shareholders and Investors

Investors play a major and vital role in the success of the N Brown Group and therefore the Company; they are the providers of capital without whom the Company could not grow or invest for future development. We engage with our shareholders and investors of the N Brown Group via:

- The Groups Annual General Meeting,
- Meetings with shareholders and proxy advisors,
- Presentations to the City; and
- Publication of Stock exchange announcements, press releases, quarterly trading results and annual reports.

During FY20, the Chair, CEO and CFO, along with other Company representatives, have held meetings with major institutional stakeholders to discuss a variety of matters including corporate strategy, business performance and share price movements.

In 2019, the Chair of the Remuneration Committee consulted with N Brown Group's Top 20 shareholders on the new remuneration policy that was ultimately approved at the 2019 Annual General Meeting.

Engagement with Stakeholders – Section 172 Statement (*continued*)

Colleagues

Without our colleagues and their relentless energy, enthusiasm and passion we couldn't do what we do. They are our single most important asset. The N Brown Group engages with colleagues across a variety of platforms including:

- The Annual colleague conference,
- Colleague forum – The culture club,
- Ask me anything sessions with the CEO,
- Quarterly colleague engagement surveys,
- Weekly division huddles,
- Weekly Company-wide newsletter from the CEO and other Directors,
- The Company-wide intranet and weekly Company-wide newsletter

2019 was also the year that Richard Moross stepped into the position of Dedicated Director for Colleague Engagement; he regularly feeds back to the N Brown Group plc Board on key aspects of the Company's culture and performance. Our Colleague Forum played a crucial role in the development of the Company's new Vision, Mission, Purpose and Values, alongside the 1000+ colleagues who took part in workshops and feedback questionnaires.

Feedback through our colleague engagement surveys has led to the introduction of new career development pathways including training and upskilling. This included the launch of our Data Fellowship Programme, a key pillar in the Company's digital growth strategy. Colleague input has helped shaped our new Environmental, Social and Governance programme and has influenced sustainability practices across our business operations.

Customers

The Company is obsessed with its customers and has been for generations. It delights them with products, services and finance to fit their lives. We regularly engage, both proactively and reactively, with our customers via:

- Dedicated board-customer immersion sessions,
- Product testing,
- Market research groups,
- Net promoter scoring and customer service reports; and
- Engagement across social media and customer service channels.

As part of strategy discussions in January 2020, the N Brown Group plc Board met with customer focus groups to discuss our brands and product offerings. These sessions helped shape the Company's revised brand strategy; including the launch of our new Home Essentials platform.

Other customer engagement across the year focused on aspects of the business such as product pricing, brand website and mobile app design and functionality, delivery propositions, customer service and overall business sustainability including the sourcing, production and transportation of our products. All of the Company's interactions with our customers have contributed to overall improvements in our business strategy.

Suppliers

Suppliers are the key links in the sourcing, development and delivery of products to our customers. They support the Company across every aspect of its operations and are crucial to the successful delivery of our business model.

In 2019 the Company revised its Supplier Charter and Procurement Policy, both of which give extended support to suppliers in their engagement with the business including the negotiation of agreeable contractual terms and mutually beneficial working relationships within and across the supply chain. We continue to promote transparency across our supply chain, believing this will allow for a more sustainable one. Our auditing and grading of factories are now delivered through an external partner, Verisio. The Company helps deliver comprehensive supplier audits including detailed and up-to-date information on wages, working hours and general sustainable and ethical practices.

Engagement with Stakeholders – Section 172 Statement (*continued*)

Community and the environment

The Company has always endeavoured to foster positive change across all aspects of our community, both local and global, and we continue to support and encourage sustainable practices across our business operations. With the support of our colleagues and following discussions between Executive Directors and the Chair of Maggie's, our partnership with local centres (Maggie's Manchester and Maggie's Oldham) has been extended for a further year.

We continue to work with leading local educational facilities, including Manchester Metropolitan University, establishing, maintaining and developing our relationships. We also reach out to our communities with our "Make a Difference" day volunteering programme, as well as continuing to support a range of brand charities.

Trade and industry bodies

Constructive engagement with trade and industry bodies is a primary channel via which the Company can support the sustainable, ethical and responsible growth of the retail industry. We engage directly with and are part of a number of bodies including Action Collaboration and Transformation – Living Wage, Ethical Trading Initiative and 2018 Transition ACCORD.

Engagement with these bodies ensures that we can contribute to maintaining and improving industry standards and best practice. Oversight of our engagement with trade and industries Bodies sits with the ESG Committee which receives regular reports on the activities of each group. Insight gained from these reports has contributed to the new ESG initiatives of the Company.

Directors' Report

The directors present their annual report on the affairs of the Company, together with the audited financial statements and auditor's report, for the 52 week period ended 29 February 2020 (last year was also a 52 week period to 2 March 2019).

Directors and their interests

The directors who served during the year and thereafter unless otherwise noted are as shown below:

N. Alliance	Resigned 10 July 2019
C. Lovelace	Resigned 28 June 2020
R. Tucker	Resigned 31 January 2020
A. Fadil	
A. Warne	
S. Johnson	
K Nelson	Appointed 3 June 2019
M Murphy	Appointed 3 June 2019; Resigned 9 January 2020
R Izzard	Appointed 6 April 2020
S Welsh	Appointed 30 March 2020
D Joy	Appointed 6 January 2020

The directors had no interests in the shares of the company.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of these financial statements. This is explained in further detail in note 1.

Employee relations

During the period under review the Company employed on average 2,467 employees (2019: 2,441). The Company values the involvement of its employees and keeping them informed about the Company and issues affecting them. This is achieved through formal and informal meetings. The Company firmly believes that an enthusiastic, motivated and well-trained workforce can only achieve continuing success. Consequently, there are continued resources devoted to staff training, departmental team briefings are held and a staff attitude survey is conducted regularly. Over 500 Company employees either hold shares in N Brown Group plc, the ultimate parent undertaking, or have options/awards to acquire them through the Company's various share option and long-term incentive schemes.

Disabled employees

Applications for employment by disabled persons are fully considered, bearing in mind the aptitude and ability of the applicant. If members of staff become disabled every effort is made to ensure their employment continues. The career development and promotion of disabled persons, is, as far as possible, identical with other employees.

Environment

The Company recognises its environmental responsibilities and is committed to minimising any damage which its activities may cause to the environment. It actively pursues a number of environmental policies, including those designed to contain energy costs, the recycling of paper and packaging materials wherever practical and the use of information technology systems to reduce the level of consumption of paper by its employees. Full details are set out in the Environmental, Social and Governance ("ESG") Committee report starting on page 72 of the Group's Annual Report and Accounts 2020

Directors' Report (*continued*)

Health and safety

The Company's policy is to adhere to all relevant legislation to ensure, as far as is reasonably practicable, the health, safety and welfare at work of all employees and of other people working on our premises but not employed by the Company. We endeavour to ensure that products and services used in the workplace or sold by us are designed so that they are safe and without risk when properly used.

Customers

One of the key factors of the Company's success is the quality of its relationship with its customers. Regular customer satisfaction surveys are conducted, both directly and through third parties, to ensure that the Company closely monitors the opinions and requirements of its customers. In addition, telephone enquiry and complaint calls received from customers are analysed and appropriate action taken to improve the levels of service offered to them.

Suppliers

It is the Company's policy to comply with the terms of payment agreed with its suppliers. The average credit period taken for trade purchases is 54 days (2019: 48 days). As at 29 February 2020 the Company is party to a supplier financing arrangement which is facilitated by HSBC. The maximum facility limit is currently £12.5m and as at 29 February a total of £6.3m (2019: £6.5m) had been funded under the programme. There is no fixed expiry date on this facility.

The Company is aware of the potential social impact of its business dealings, particularly in developing countries. Our standard terms and conditions for the purchase of all goods for resale require that, in relation to the manufacture of merchandise, the supplier warrants that all labour, safety and other relevant laws in the country of manufacture will be strictly observed with respect to all workers at all stages of production.

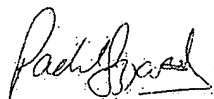
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



Rachel Izzard
Director

Griffin House
40 Lever Street
Manchester
M60 6ES

24 November 2020

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP

1 St Peter's Square
Manchester
M2 3AE
United Kingdom

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JD WILLIAMS & COMPANY LIMITED

Opinion

We have audited the financial statements of JD Williams & Company Limited ("the company") for the 52 week period ended 29 February 2020, which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 29 February 2020 and of its profit for the period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;

- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

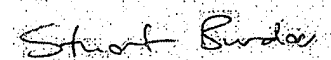
Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Stuart Burdass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester M2 3AE
United Kingdom
26 November 2020

Profit and Loss Account

For the 52 week period ending 29 February 2020

	Notes	For the 52 weeks ended 29 February 2020 £'000	For the 52 weeks ended 2 March 2019 £'000
Revenue	2	574,290	619,385
Credit account interest		<u>259,004</u>	<u>262,224</u>
Total Revenue (including credit interest)		833,294	881,609
Cost of sales		(283,080)	(295,079)
Impairment losses on customer receivables		(130,939)	(118,242)
Profit on sale of customer receivables		<u>6,285</u>	<u>10,673</u>
Net Impairment charge		<u>(124,654)</u>	<u>(107,569)</u>
Gross profit		425,560	478,961
Distribution costs		(75,130)	(79,295)
Selling and administration costs		(274,964)	(297,971)
Exceptional items	2	(28,464)	(149,888)
Operating profit/(loss)		47,002	(48,193)
Finance charges (net)	3	(20,790)	(21,006)
Fair value adjustments to financial instruments	18	4,735	4,461
Profit/(Loss) on ordinary activities before taxation	4, 5	30,947	(64,738)
Taxation	6	(7,316)	11,287
Profit/(loss) for the financial period		23,631	(53,451)

All activity has arisen from continuing operations.

Statement of Comprehensive Income

	Notes	For the 52 weeks ended 29 February 2020 £'000	For the 52 weeks ended 2 March 2019 £'000
Profit/(loss) for the financial period		23,631	(53,451)
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial gains on defined benefit pension scheme	16	855	3,939
Tax relating to items not reclassified		(299)	(4,986)
Total other comprehensive income/(loss)		556	(1,047)
Total comprehensive income/(loss) for the period		24,187	(54,498)

The accompanying notes form an integral part of these financial statements.


Balance sheet

As at 29 February 2020

	Note	As at 29 February 2020 £'000	As at 2 March 2019 (restated*) £'000
Non-current assets			
Intangible assets	7	151,346	145,169
Tangible assets	8	62,596	59,361
Right of use assets	20	5,355	-
Retirement benefit surplus	16	26,260	23,976
Investments	9	4,547	4,547
Deferred tax assets	13	13,131	18,537
Derivative financial instruments	18	1,325	-
		<hr/>	<hr/>
		264,560	251,590
		<hr/>	<hr/>
Current assets			
Inventories	10	94,787	112,343
Trade and other receivables	11	711,952	698,602
Cash and cash equivalents	23	1,751	-
Derivative financial instruments	18	4,047	-
		<hr/>	<hr/>
		812,537	810,945
		<hr/>	<hr/>
Current liabilities			
Bank overdraft	23	-	(37,541)
Provisions	22	(11,063)	(24,851)
Trade and other payables	12	(876,900)	(838,890)
Lease Liability	20	(2,166)	-
Current tax liability		(7,545)	(9,546)
Derivative financial instruments	18	(1,323)	(1,557)
		<hr/>	<hr/>
		(898,997)	(912,385)
		<hr/>	<hr/>
Net current liabilities		(86,460)	(101,440)
		<hr/>	<hr/>
Total assets less current liabilities		178,100	150,150
		<hr/>	<hr/>
Non-current liabilities			
Deferred tax liability	13	(14,649)	(14,516)
Lease Liability	20	(4,520)	-
Derivative financial instruments	18	(870)	-
		<hr/>	<hr/>
Net assets		158,061	135,634
		<hr/>	<hr/>
Capital and reserves			
Called-up share capital	14	114,978	114,978
Called-up ordinary A share capital	14	120	120
Called-up ordinary B share capital	14	120	120
Profit and loss account		42,843	20,416
		<hr/>	<hr/>
Shareholder's funds		158,061	135,634
		<hr/>	<hr/>

*refer to prior year adjustment note

The financial statements of J.D. Williams & Company Limited (company registration number 00178367) were approved by the Board of Directors and authorised for issue on 24 November 2020 and signed on its behalf by:



Rachel Izzard
Director

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

	Share Capital £000	Retained Earnings £000	Total £000
<i>For the 52 weeks ended 2 March 2019</i>			
Balance as at 4 March 2018	115,218	99,810	215,028
Comprehensive income for the period			
Loss for the period	-	(53,451)	(53,451)
Other items of comprehensive income for the period	-	(1,047)	(1,047)
Total comprehensive income for the period	-	(54,498)	(54,498)
Transactions with owners recorded directly in equity			
Share option credit	-	104	104
Equity dividends	-	(25,000)	(25,000)
Total contributions by and distributions to owners	-	(24,896)	(24,896)
Balance at 02 March 2019	115,218	20,416	135,634
<i>For the 52 weeks ended 29 February 2020</i>			
Balance as originally reported at 2 March 2019	115,218	20,416	135,634
Transition adjustment on initial application of IFRS 16 (net of tax)	-	(482)	(482)
Balance at 3 March 2019	115,218	19,934	135,152
Comprehensive income for the period			
Profit for the period	-	23,631	23,631
Other items of comprehensive expense for the period	-	556	556
Total comprehensive income for the period	-	24,187	24,187
Transactions with owners recorded directly in equity			
Share option debit	-	(1,278)	(1,278)
Equity dividends	-	-	-
Total contributions by and distributions to owners	-	(1,278)	(1,278)
Balance at 29 February 2020	115,218	42,843	158,061

The accompanying notes form an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

JD Williams & Company Limited (the “Company”) is a company incorporated and domiciled in the UK. The registered office is Griffin House, 40 Lever Street, Manchester, M60 6ES. The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The principal accounting policies of the Company are summarised below.

Basis of accounting

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s ultimate parent undertaking N Brown Group Plc includes the Company in its consolidated financial statements. The consolidated financial statements of N Brown Group Plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from its registered office address (see Note 21).

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statements and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effect of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel;
- Certain disclosures required by IAS1 when an entity applies a retrospective restatement of items;

As the consolidated financial statements of N Brown Group Plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments;
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- The requirements of IFRS 7 *Financial Instruments: Disclosures* except where required by relevant legal standards;

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The financial statements are prepared under the historical cost convention.

Accounting period

Throughout the financial statements, the notes to the financial statements and the Directors’ Report reference to 2020 means at 29 February 2020 or the 52 weeks then ended; reference to 2019 means at 2 March 2019 or the 52 weeks then ended unless otherwise stated.

Notes (continued)

1 Accounting policies (continued)

Adoption of new and revised standards

IFRS 16 Leases

The Company has adopted IFRS 16 with effect from 3 March 2019 using the modified retrospective approach. The Company elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, and for lease contracts for which the underlying asset is of low value. The Company has also applied the practical expedients to apply a single discount rate over all leases with similar characteristics. All right-of-use assets have been measured at an amount equal to the lease liability adjusted for prepaid or accrued lease payments.

IFRS 16 impacts the presentation of the financial statements introducing a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments. Lease liabilities are measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate of 2.8% approximated at the transition date to the Company's weighted cost of borrowing reflecting the rate the Company would have to pay to borrow the funds necessary to obtain assets of similar value to the right of use assets, in a similar economic environment with similar terms, security and conditions. Right-of-use assets are depreciated on a straight line basis over the shorter of estimated useful life and the lease term.

The effect of IFRS 16 at adoption is as follows:

Impact on the Balance Sheet as at 3 March 2019:

- Right-of-use assets of £5,987k were recognised and presented separately in the balance sheet.
- Additional lease liabilities of £9,223k were recognised and presented separately in the balance sheet.

Measurement of lease liabilities

The table below reconciles the operating lease commitments disclosed in the prior year financial statements in accordance with IAS 17 to the lease liability recognised in the opening balance sheet for the current financial year. There was no impact on retained earnings at transition to IFRS 16, further information relating to the lease impact in the year is given in note 20.

	£m
Operating lease commitments disclosed as at 2 March 2019	7.8
Discounted using the incremental borrowing rate at the date of initial application	7.0
(Less): low value leases not recognized as a liability	(2.0)
Add: Other amounts recognised at transition	4.2
Lease liability recognised as at 3 March 2019	9.2

The impact on retained earnings at 3 March 2019 was a decrease of £0.5m, due to the recognition of the net investment on subleases where the Company holds property sublet at a lower rental than the head lease cost incurred by the Company. £4.2m other amounts recognised at transition consisted of other contracts identified as leases under IFRS 16.

Further information relating to the closing Balance sheet position and Profit and Loss impact on the current financial year are included in note 20.

Notes (continued)

1. Accounting policies (continued)

Going concern

A letter of support has been provided by N Brown Group plc ("the Group"), the Company's immediate and ultimate parent undertaking, confirming the Group's intention to continue to provide, if required, financial and other support to the Company for a period of at least 18 months from the date of approval of these financial statements, to allow the Company to continue to meet its obligations as they fall due for the foreseeable future.

For the reasons set out in detail below, the Directors have a reasonable expectation that N Brown Group plc has adequate resources to continue in operational existence for at least the next 18 months and is therefore able to provide any support needed.

Accordingly, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next 18 months and they continue to adopt the going concern basis in the preparation of these financial statements.

In considering the ability of the ultimate parent company to provide that support, the Directors have considered the disclosure included in the interim financial statements of the ultimate parent authorised for issue on 5 November as follows:

Going concern assessment of N Brown Group plc

a) Conclusion

For the reasons set out in detail below, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 18 months. Accordingly, they continue to adopt the going concern basis in the preparation of these financial statements.

The Directors believe there are no longer any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. This has changed compared to the FY20 full year conclusion in light of the Group securing irrevocable commitments from its lenders to extend its unsecured borrowing facilities until at least May 2022 and its securitisation borrowing facilities until December 2023.

b) Rationale for Conclusion

As at 29 August 2020, the Group had total accessible liquidity ("TAL") of £164.5m, which was £89.5m higher than as reported at 29 February 2020, primarily due to the additional £50m CLBILS facility granted in May 2020 and additional cash generation measures taken in H1 totalling £45.3m.

The liquidity position has then been assessed on a forward basis considering the following:

c) Equity raise and revised financing arrangements

Announced concurrent with the FY'21 H1 interim results, the company is proposing a fully supported equity raise of £100 million. The Group has also secured irrevocable commitments from its longstanding supportive lenders to provide extensions to its RCF and securitisation facilities as described below, with separate fully committed structures agreed to cover either the capital raise transacting or not transacting. Previously the RCF facility of £125 million was committed until October 2021 and the securitisation facility of £500 million until December 2021.

If the £100m capital raise transacts the resulting funding facilities following completion in December 2020 would be as follows:

- An up to £500 million securitisation facility committed until December 2023, drawings on which are linked to prevailing levels of eligible receivables;
- An RCF of £100 million committed until December 2023 (of which £75m was drawn as at 29 August 2020 and 30 October 2020) and after the equity is raised this will become fully undrawn);
- An overdraft facility of £27.5 million which is subject to an annual review every July (undrawn as at 29 August 2020 and 30 October 2020); and

Notes (continued)
(forming part of the financial statements)

1. Accounting policies (continued)

Going concern (continued)

- The £50m CLBILS Term Loan Facility committed until May 2023 (£2m drawn as at 29 August 2020 and 30 October 2020) will be repaid and handed back without penalty.
- Post enactment unsecured net debt will move into a net cash position, undrawn headroom on unsecured credit facilities improves by £2m (i.e. RCF undrawn increases from £50m to £100m and CLBILS undrawn decreases from £48m to £nil), and certainty of funding tenor is extended.

Following the net capital raise of £94.5m (i.e. after £5.5m of issue costs) and de-leveraging of £77m (i.e. paying back all £75m drawn on the RCF and £2m drawn on CLBILS), the remaining c.£18m of the net raise will be available to accelerate the new strategy.

If the capital raise does not transact the resulting funding facilities following completion in December 2020 would be as follows:

- An up to £500 million securitisation facility committed until December 2023, drawings on which are linked to prevailing levels of eligible receivables, identical to the capital raise scenario;
- An RCF of £100 million reducing to £50m from October 2021, committed until May 2022;
- An overdraft facility of £27.5 million which is subject to an annual review every July; and
- A £50 million CLBILS Term Loan Facility committed until May 2023.
- Post enactment unsecured net debt remains unchanged, undrawn headroom on unsecured credit facilities reduces by £25 million due to the reduction in the size of the RCF facility (remaining higher than prior year due to cash generation in the period and the introduction of the CLBILS facility), and certainty of funding tenor is extended.

Both scenarios include irrevocable commitments from our lenders and assist in removing financing uncertainty from the Group's financial forecasting across the working capital period.

d) Current performance

Trading has improved from the sudden and significant decline experienced in March as explained further on page 11. Product revenue declined 20.5% in H1'21 vs the prior year, with the trajectory improving through the period, with Q1 down 24.8% and Q2 down 16.1% inclusive of rephasing of returns provisions and is expected to continue steadily improving through H2.

As expected, lower product revenue, regulatory changes and a smaller debtor book resulted in lower financial services revenue, however customer behaviour in terms of loan repayment rates and arrears has remained in line or better than prior levels ensuring continued strong cash generation from the financial services business.

Excluding the impact of the additional bad debt provision resulting from Covid-19, EBITDA for H1 was higher than last year, due to continued flexible operating cost savings across all areas of the cost base, particularly in relation to marketing costs.

The aforementioned performance, combined with reduced capital expenditure, a lower than previous level of exceptional charges, and the suspension of dividends led to net cash generation in H1'21 well ahead of prior periods.

Due to the continued uncertain outlook management actions continue to be in place to tightly control expenditure and to carefully monitor financial services customer repayment rates.

Notes (continued)
(forming part of the financial statements)

1. Accounting policies (continued)

Going concern (continued)

e) Financial forecasts including downside scenario

In determining whether the Group's accounts can be prepared on a going concern basis, the Directors have considered the Group's business activities together with factors likely to affect its future development, performance and its financial position including cash flows, liquidity position and borrowing facilities and the principal risks and uncertainties relating to its business activities.

The borrowing facilities and liquidity have been based on the revised commitments covered in section 3 c) above.

The operating results have been forecast using a range of scenarios with a **core forecast** assuming;

- Since the initial significant impact of Covid-19 on product revenue, trends have continued to improve;
- The business continues to be fully operational throughout the remainder of the pandemic (as has been the case since the outset);
- Product gross margin pressure continues due to mix and a highly promotional retail market;
- Financial Services revenue reduces as the size of the loan book reduces considering lower product sales;
- FS gross margin declines due to previously guided regulatory pressures and an increase in bad debt and write offs due to the impact of Covid-19; and
- Operating cost efficiencies continue, at a slower pace than those achieved immediately post Covid-19, but of a material quantum such that they offset at least 75% of gross margin decline in FY21 and continue at a similar cost to revenue ratio into FY22.

This core forecast is that which the directors consider represents their best estimate of the future based on the information that is available to them at the time of the approval of this interim report.

It is recognised that there remains considerable uncertainty as to the continued impacts of Covid-19 on our customer base and we have therefore also constructed an updated **severe but plausible downside scenario** which applies sensitivities to Group revenue and associated costs, customer cash collections and impairment charges. For the purposes of assessing the Group's ability to continue as a going concern this severe downside forecast has been used. Specifically, in terms of the remainder of the current year and next financial year, key assumptions have been sensitised to the following levels:

- Retail product revenue - FY'21 H1 actual results down 20.5%, FY'21 H2 down 18.1%, FY22 Full Year down 16.6% (all movements vs FY20 actuals);
- Financial Services revenue - FY'21 H1 actual results down 12.3%, FY'21 H2 down 7.2%, FY22 Full Year down 14.6% (all movements vs FY20 actuals);
- Financial Services customer cash collection rate – reduction in monthly collections as a proportion of average debtor balances of up to 9% from equivalent FY20 levels until September 2021; and
- Financial Services bad debt impairment charges – additional impairments across FY21 and FY22 of £33m over and above the levels assumed in our base plan. This further impairment charge would represent over 5% of the current debtor book.

In the event the Capital Raising takes place, even under this severe downside scenario, all borrowing covenants would be met and the Group would have sufficient Total Accessible Liquidity to allow it to continue to trade for the foreseeable future.

Notes (continued)
(forming part of the financial statements)

1. Accounting policies (continued)

Going concern (continued)

In the event that the Capital Raising does not take place, modest actions fully within management's control such as deferrals of discretionary spend or working capital deferrals, at levels achieved in prior years, would be entered into when needed and would ensure all borrowing covenants continue to be met under the downside scenario. No such actions would be required under our core planning scenario. Therefore, even under this severe downside scenario, all borrowing covenants would be met and the Group would have sufficient Total Accessible Liquidity to allow it to continue to trade for the foreseeable future.

In summary, whether or not the Capital Raising takes place, the Directors are confident that the Group has access to sufficient financing facilities to meet its needs for at least next the next 18 months including in the event of a severe downside stress scenario.

Notes (continued)

1. Accounting policies (continued)

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and any provision for impairment in value. Land and buildings are shown at original historical cost, net of depreciation and any provision for impairment.

No depreciation is charged on freehold land. Depreciation of all other tangible assets is calculated so as to write off the cost or valuation of each asset over its expected useful life as follows:

Land & buildings

Freehold buildings	2% of cost or valuation
Leasehold property additions and improvements	equal annual amounts over the unexpired term of the lease

Fixtures and equipment

Computer equipment and software	between 10% and 20% of cost
Plant and machinery	between 5% and 20% of cost
All other tangible fixed assets	between 10% and 20% of cost

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Share based payments

N Brown Group plc issues equity-settled share-based payments to certain employees of the Company. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on an estimate of shares that will eventually vest. This is recognised as an employee expense with a corresponding increase in equity. Fair value is measured by Monte - Carlo for options subject to a market based performance condition and by use of the Black-Scholes pricing model for all others. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. The maximum exercise period of awards granted is 10 years from the award date.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates relating to the purchase of overseas sourced product, and interest rates relating to the Company's debt. The Company uses foreign exchange forward contracts and interest rate swap contracts where appropriate to hedge these exposures. In accordance with its treasury policy, the Company does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

Derivatives are stated at their fair value. The fair value of foreign currency derivatives contracts is their quoted market value at the balance sheet date. Market values are based on the duration of the derivative instrument together with the quoted market data including interest rates, foreign exchange rates and market volatility at the balance sheet date. The fair value of interest rate contracts is the estimated amount that the Company would receive to pay to terminate them at the balance sheet date, taking into account prevailing interest rates. Changes in the fair value of currency derivative financial instruments are recognised in the income as they arise.

Notes (continued)

1. Accounting policies (continued)

Revenue recognition

Product revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Product revenue is recognised in accordance with IFRS 15, with the sale of the product.

In the case of goods sold through our trading websites and other routes, including goods delivered to the customer directly from suppliers, revenue is recognised when goods are delivered to the customer and therefore control is transferred to the customer. In regard to goods directly despatched to the customer from suppliers, the Company has the ability to direct the use of and obtain substantially all of the benefits from the specified goods. More specifically, the Company is responsible for providing the specified goods to the customer, has inventory risk prior to these being transferred to the customer and has significant influence over the pricing of the goods, therefore it is acting as the principal in these arrangements. Revenue from direct despatch sales is therefore recognised gross.

Sales returns in the period are recognised as a deduction to revenue based on expected levels of returns. Provision is made for outstanding returns not yet made at the period end. Accumulated experience (including historical returns rates) is used to estimate and provide for such returns. The provision is recorded as a reduction in revenue with a corresponding entry against trade receivables. Inventory expected to come back as a result of returns is recorded as a reduction in cost of sales with a corresponding entry to increase the closing stocks.

Financial services revenue includes interest, administrative charges and arrangement fees. Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate. Effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's gross carrying amount, being its amortised cost excluding expected credit losses. Interest income from stage 1 and 2 trade receivables is recognised by applying the effective interest rate to the gross carrying amount of the asset; for stage 3 trade receivables, the effective interest rate is applied to the net carrying amount after deducting the allowance for expected credit losses.

Revenue from non-interest related financial income primarily comprises administration fees arising from missed payments by customers and is recognised when the associated arrears management activity has been performed.

Foreign exchange

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Company may enter into forward contracts and options (see below for details of the Company's accounting policies in respect of such derivative financial instruments).

Intangible assets

Computer software development costs that generate economic benefits beyond one year are capitalised as intangible assets and amortised on a straight-line basis over a range of five to ten years. Assets under construction are not amortised but instead tested for impairment annually.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends to and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials and direct labour. Other development expenditure is recognised in the profit and loss account

Notes (continued)

1. Accounting policies (continued)

Intangible assets (continued)

as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Legally protected or otherwise separable trade names acquired as part of a business combination are capitalised at fair value on acquisition. Brand names are individually assessed and are assumed to have an indefinite life and are not amortised, but are subject to annual impairment tests.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal of an impairment loss is recognised in the profit and loss account immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Classification – financial assets

IFRS 9 contains a classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost; fair value through other comprehensive income ('FVOCI'); and fair value through profit and loss ('FVTPL'). The Company has determined that all of the trade and other receivables are classified as amortised cost, because a financial asset is measured at amortised cost if both the following conditions are met and it has not been designated as at FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows on specified dates that represent payments of solely principal and interest on the outstanding principal amount.

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Notes (continued)

1. Accounting policies (continued)

Financial instruments (continued)

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income or realising cash flows from the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model and how those risks are managed;
- how managers of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

For the purpose of this assessment "principal" is defined as the fair value of the financial asset on initial recognition. Interest is defined as the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administration costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment the Company considers:

- contingent events that would change the amount or timing of cashflows; and
- terms that may adjust the contractual coupon rate.

IFRS 9 contains two classification categories for financial liabilities: measured at amortised cost or fair value through profit and loss ("FVTPL"). All of the Company's financial liabilities other than derivative liabilities are measured at amortised cost.

Financial instruments – Recognition and Measurement

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities as appropriate on initial recognition.

Financial assets classified as amortised cost are subsequently measured using the effective interest method, less any impairment. Financial liabilities classified as amortised cost are subsequently measured using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest rate method is a method of calculating amortised cost and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets classified as amortised cost are subsequently measured using the effective interest method, less any impairment. Financial liabilities classified as amortised cost are subsequently measured using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest rate method is a method of calculating amortised cost and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Notes (continued)

1. Accounting policies (continued)

Financial instruments (continued)

Financial instruments held at fair value through profit or loss relate entirely to derivative contracts. As noted below, these instruments are carried in the balance sheet at their fair value with changes in the fair value recognised in the Profit and loss statement as they arise.

Impairment – Financial Services and Contract Assets

The Company recognises an allowance for expected credit losses (ECLs) for customer and other receivables. IFRS 9 requires an impairment provision to be recognised on origination of a customer advance, based on its ECL. Customer receivables relate to trade receivables included in the Company balance sheet.

Additional ECL provisions that are recognised in the profit and loss account are presented as “Impairment losses on customer receivables”. Any change to ECL provisions required where there is a difference between sale price and carrying value at the point of derecognition due to a spot debt sale is presented in the profit and loss account as “Profit on sale of customer receivables”.

As the Company has determined there is a significant financing component, the ECL model introduces the concept of staging.

Stage 1 – assets which have not demonstrated any significant increase in credit risk since origination

Stage 2 – assets which have demonstrated a significant increase in credit risk since origination

Stage 3 – assets which are credit impaired (i.e. defaulted)

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECL's are calculated for assets in stage 1 and lifetime ECL's are calculated for assets in stage 2 and stage.

ECL is the product of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), discounted at the current effective interest rate (EIR). In accordance with IFRS 9, the current EIR is used as the discount rate because all trade receivables have a variable interest rate.

The probability of default is an estimate of the likelihood of default over 12 months (stage 1) or the expected lifetime of the debt (stage 2). It is 100% for balances within stage 3 as these have already defaulted. The calculation of PDs is based on statistical models that utilise internal data, adjusted to take into account estimates of future conditions.

The exposure at default is an estimate of the exposure at the date of default and is capped so as not to exceed the balance outstanding at the reporting date because receivables arising from future sales are not incorporated into the ECL calculation as explained below.

The loss given default is an estimate of the loss arising on default, including an estimation of recoveries based on the Company's history of recovery rates from debt sales and expectations of how these are expected to change in the future. Recoveries exclude estimated future proceeds from VAT Bad Debt Relief. Instead VAT Bad Debt relief is recognised within the net VAT creditor in Other creditors at the point at which the receivable balance meets the agreed criteria with HMRC for VAT Bad Debt Relief to apply.

IFRS 9 ordinarily requires an entity to not only consider a loan, but also the undrawn commitment when calculating the ECL, where the exposure to credit risk cannot be limited by the ability to cancel or demand repayment. However, the guidance in IFRS 9 excludes from its scope a sales commitment, being the rights and obligations from the delivery of goods as a result of a contract with a customer within the scope of IFRS 15. Thus, a sales commitment is not considered to be a financial instrument, and therefore the impairment requirements are not applied by the Company until delivery has occurred and a receivable has been recognised, at which point the 12-month ECL will be recognised in line with the above.

Notes (continued)

1. Accounting policies (continued)

Financial instruments (continued)

Significant increase in credit risk

A financial asset will be considered to have experienced a significant increase in credit risk (SICR) since initial recognition where there has been a significant increase in the lifetime probability of default of the asset. The assessment uses behavioural risk scores (which comprise both internal data around how customers have been using their accounts and credit bureau data as to how customers have been managing their credit obligations with other lenders) to compare the estimated risk of default occurring at the reporting date with that at initial recognition to identify the proportional change in risk score. The SICR threshold is set at the point at which, in recent historical observations, the proportional change in risk score resulted in the PD after 12 months for such stage 1 customers being higher than the average PD for stage 2 customers that are one payment in arrears.

Where the proportional change in risk score since initial recognition exceeds the threshold, the asset will be deemed to have experienced a significant increase in credit risk. The credit risk of a financial asset may improve such that when this threshold is no longer exceeded, it is no longer considered to have experienced SICR and would move back to stage 1.

IFRS 9 requires a backstop to be applied whereby a receivable that is over a certain number of days past due (presumed to be no later than 30 days) is automatically considered to have experienced SICR. The backstop applied by the Company is a receivable that is 28 days or more past due. This period is used as customers have a 28 day statementing cycle. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which the minimum payment has not been received. Due dates are determined without considering any grace period or forbearance that may have been made available to the borrower.

Definition of default

At each reporting date, the Company assesses whether financial assets carried at amortised cost are in default (stage 3).

Evidence that a financial asset is in default includes the following observable data:

- The account has been placed on a non-interest bearing payment arrangement (as part of forbearance measures);
- Notification of bereavement has been received; or
- The receivable is 56 days or more days past due for new customers and 84 days past due for established customers.

Definition of write off

The Company consider that an asset should be written off when it is more than 124 days past due for new customers and 152 days past due for established customers and all collection activity has been exhausted. Write offs include where receivables have been sold to third parties in accordance with the Company's recovery strategies.

Incorporation of forward-looking data

The Company incorporates forward looking information into its measurement of expected credit loss. Separate macroeconomic provisions are recognised to reflect the expected impact of future economic events on a customer's ability to make repayments and the losses incurred given default, in addition to the core impairment provisions already recognised.

This is achieved through engagement of external expert advisors to devise a central, downside and upside of potential economic scenarios and modelling expected credit losses for each scenario. Management uses the outputs from each scenario to apply a weighting of 40% central, 30% upside and 30% downside, to estimate the likelihood of each scenario occurring to derive a probability weighted estimate of expected credit loss.

The macro-economic measures used are changes in unemployment and real wage earnings and are disclosed in more detail in note 19. A significant portion of the Company's customers are not currently in employment and therefore this segment of customers does not have a significant correlation to these or any other readily determinable economic indicators.

The future macro-economic scenario assumptions are reviewed at each reporting date and updated accordingly.

Notes (continued)

1. Accounting policies (continued)

Exceptional items

Exceptional items are those that do not form part of the recurring operational activities of the Company and are so material in nature and impact that the Directors believe that they require separate disclosure on the face of the profit and loss account to avoid distortion of underlying performance.

Supplier rebates

The Company enters into volume based rebate arrangements with suppliers. Rebates are calculated annually based on agreements in place, which stipulate an agreed percentage of purchase be granted as a rebate. Rebates are agreed with suppliers or are probable to be agreed with suppliers before they are recognised in the profit and loss account; outstanding balances are recorded in accrued income.

Supplier Financing Arrangements

The Company has a supplier financing scheme as part of its normal course of business. This scheme is based around the principle of reverse factoring whereby the banks purchase from the suppliers approved trade debts owed by the Company. Access to the supplier finance scheme is by mutual agreement between the bank and supplier; the Company is not party to this contract. The scheme has no cost to the Company as the fees are paid by the supplier directly to the banks. The banks have no special seniority of claim to the Company upon liquidation and would be treated the same as any other trade payable. As the scheme does not change the characteristics of the trade payable, and the Company's obligation is not legally extinguished until the bank is repaid, the Company continues to recognise these liabilities as trade payables.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of other comprehensive income in the period in which they occur. Remeasurement recorded in the statement of other comprehensive income is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

Defined benefit costs are split into three categories:

- Current service cost, past-service cost and gains and losses on curtailments and settlements;
- Net interest expense or income; and
- Remeasurement.

The Company presents the first two components of defined benefit costs within operating expenses (see note 16) in its Profit and Loss Account. Curtailments gains and losses are accounted for as past-service cost. Net-interest expense or income is recognised within finance costs (see note 3). The retirement benefit asset/ (obligation) recognised in the balance sheet represents the present value of the defined benefit asset/ (obligation), as reduced by the fair value of scheme assets. Any asset resulting from this calculation is restricted to the past service cost plus the present value of available refunds and reductions in future contributions.

Notes (continued)

1. Accounting policies (continued)

Inventories

Inventories have been valued at the lower of cost and net realisable value. Provision is made based on the age of the inventory and management's estimates of future disposal strategies. Cost comprises direct materials and those overheads that have been incurred in bringing inventories to their present location and condition based on the standard costing method. Cost has been calculated on a first-in first-out basis. Net realisable value means estimated selling price less all costs to be incurred in marketing, selling and distribution.

Stock in transit is recognised where control of the goods has transferred to the Company, following acceptance of the asset and the transfer of the risks and rewards associated with it.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Provisions

The Company recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably. In the cases where the amount of the obligation cannot be estimated reliably, no provision is made.

Provision is made for customer remediation when the Company has established that a present obligation exists in respect of financial services products sold in the past. Provision is made for restructuring costs, including the costs of redundancy, when the Company has a constructive obligation to restructure. An obligation exists when the Company has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan or by announcing its main features.

If the Company has a contract that is onerous, it recognises the present obligation under the contract as a provision, other than the rental costs offset against the right of use asset under IFRS16.

An onerous contract is one where the unavoidable costs of meeting the Company's contractual obligations exceed the expected economic benefits.

Notes (continued)

1. Accounting policies (continued)

Contingent Liabilities and assets

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised but information about them is disclosed where an inflow of economic benefits is probable.

Deemed loans due to group undertakings

The company enters into a Receivables Sales Agreement in which it sells certain trade receivables to a special purpose entity, Planetree Limited. Management consider that the Company retains substantially all of the risks and rewards of ownership of these securitised assets. The Company therefore continued to recognise these assets as trade receivables and recognised a 'deemed loan' financial liability for the consideration received from Planetree Limited.

The deemed loan is carried at amortised cost using the effective interest rate method with all movements being recognised in the profit and loss account.

Lease liabilities

The Company leases offices, warehouses, retail stores that have now closed, equipment and vehicles.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Where the Company is a lessee, it recognises a right-of-use asset and a corresponding lease liability, measured at the present value of remaining cash flows on the lease. Lease liabilities include the net present value of fixed payments less any lease incentives receivable. There are no residual value guarantees or purchase options present in any contracts entered by the Company. The lease payments are discounted using the Company's incremental borrowing rate at transition or at the lease start date for leases entered into after transition, calculated by applying a weighting to all recent third-party financing.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is subsequently measured at the amortised cost using the effective interest rate method. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the profit and loss account if the carrying amount of the right-of-use asset has been reduced to nil.

Extension and termination options are not currently included in measurement of any of the leases across the Company, as all options present in the contracts have been exercised in the past. Any new leases or renegotiated leases which the Company enters into in future containing an extension or termination option will be considered when determining the lease length with reference to management intention and historic action.

The Company applies the recognition exemption in IFRS 16 for leases with a term not exceeding 12 months and low value leases. For these leases the lease payments are recognised as an expense on a straight-line basis over the lease term.

Policy applicable before 3 March 2019

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease even where payments are not made on such a basis.

Notes (continued)

1. Accounting policies (continued)

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Critical judgements and key sources of estimation uncertainty

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Company's results and financial position, are as follows:

Critical judgement - Impact of Covid-19

Although the global spread of Covid-19 began before 29 February 2020, the World Health Organisation declaration of a global pandemic did not take place until 11 March 2020. As at 29 February 2020 management did not foresee and could not reasonably have foreseen the escalation of the virus within the UK that subsequently took place. For this reason, the significant effects of Covid-19 that were not foreseen at the balance sheet date are not adjusted within these financial statements. Disclosure of the estimated financial impacts relating to this post balance sheet event is provided in note 27.

Critical judgement and estimation uncertainty – Trade receivables

The allowance for expected credit losses for trade receivables involves several areas of judgement, including estimating forward-looking modelled parameters (PD, LGD and EAD), developing a range of unbiased future economic scenarios, estimating expected lives and assessing significant increases in credit risk, based on the Company's experience of managing credit risk.

Key judgements involved in the determination of expected credit loss are:

- determining which receivables have suffered from a significant increase in credit risk;
- determining the period over which historical probabilities of default are measured to apply current PD estimates; and
- determining the value and frequency of future debt sales in calculating the LGD.

Refinements have been made in the year to the judgement over when a significant increase in credit risk (SICR) is deemed to have occurred. The refinement has taken place during the year following the first year of full IFRS 9 implementation allowing further analysis over a larger historical data set and model observations, which allowed management to better identify receivables which have experienced SICR.

The SICR threshold was previously based on segmenting the book, where a significant increase in credit risk was considered to have occurred if a customer segment move resulted in a 250% increase in lifetime PD.

The SICR threshold is now set at the point at which the proportional change in the behavioural risk score results in the PD after 12 months for such stage 1 customers being higher than the average PD for stage 2 customers that are one payment in arrears.

Where the proportional change in risk score for a customer since initial recognition exceeds the threshold for the relevant segment for that customer, the asset will be deemed to have experienced a significant increase in credit risk.

The revised approach is considered to be a more appropriate calculation methodology as it removes the risk in certain cases of relatively small score internal behavioural score changes resulting in SICR being applied. **Notes**
(continued)

1. Accounting policies (continued)

The probability of default of the trade receivables book has also been reassessed during the current year, as previous PDs formed from historical development data did not fully capture the improving credit quality of trade receivables. A PD realignment has taken place by calculating an adjustment factor to give weighting to more recent performance by comparison of historical default data to the performance of more recent vintages. The adjustment factor has then been applied across the PD tables to PD parameters for each customer segment to ensure the model is more reflective of current trends, and in turn a better predictor of future performance.

In management's judgement, the most appropriate probability of default parameter in the ECL model is to reflect observed rates over a two-year period. The two-year period has been selected as this is considered to fully capture recent improvements in PDs resulting from the introduction of new collection models, new payment tools, more stringent affordability rules that led to reduced acceptance rates for new applicants and a reduction in the number of credit limit increases. A shorter period may lead to a less reliable estimate and increased volatility, whereas a longer period would be less likely to provide an up-to-date view of PDs incorporating the above. The sustained significant reductions in observed default rates over recent years have been a key driver in the reduction in ECL provision during the year.

Once collection strategies are no longer appropriate or effective, management typically sell customer receivables to third parties. Therefore, the estimated sales price for these balances is a key judgement. Due to forecasted and observed market conditions during the year, the estimated future sales prices used to arrive at LGD have been reduced from the prior year end by between 20% and 40% dependent on the type of debt being sold. A profit on debt sale arises when the consideration receivable from the third party exceeds the carrying value of the customer receivables net of their expected credit losses at the point of the debt sale.

To indicate the level of estimation uncertainty, the impact on the ECL of applying different model parameters are shown below:

- a 20% increase in PDs would lead to a £5.9m increase in the ECL;
- using an 18-month rather than two year observation period window for the PD adjustment factor outlined above would lead to a £1.3m reduction in ECL; or
- a 20% reduction in debt sale prices would lead to a £1.2m increase in the ECL.

Critical judgement – Software development costs

Included within intangible assets are significant software and development project costs in respect of the Company's technological development programme. Costs are capitalised to the extent that future economic benefits are expected to be generated by the project, which requires judgement to be made as to whether the project will be completed successfully, will be technically feasible and whether sufficient revenue and profitability will be generated to recover the costs capitalised. If these criteria are not subsequently met, the asset would be subject to a future impairment charge which would impact the Company's results.

Critical judgement and estimation uncertainty – Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is higher of its fair value less costs of disposal and its value in use. The value in use calculation is based on a DCF model. The cash flows are derived from the Group's three year budget, taken into perpetuity, and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used as well as the expected future cash inflows and the long-term growth rate used in perpetuity. The key assumptions used to determine the recoverable amount, including a sensitivity analysis, are disclosed and further explained in note 7.

Critical judgement and estimation uncertainty – Inventory Provision is made for those items of inventory where the net realisable value is estimated to be lower than cost. Net realisable value is based on both historical experience and assumptions regarding future selling values and disposal channels and is consequently a source of estimation uncertainty.

The selling prices of inventory are estimated to determine the net realisable value of inventory. Historical sales patterns and post year end trading performance are used to determine these. At 29 February 2020 the inventory provision amounted to £7.7m (2019: £6.0m). The increase in the provision in the current year reflects an expected increase in sales through channels that achieve lower realisation rates as well as provision against stock relating to brands that will no longer trade through the Company's main selling channels.

A 10% change in the volume of inventories sold via sub optimal channels would impact the net realisable value by £2.0m.

Critical judgement – Allianz claim

The ongoing legal claim with Allianz Insurance plc has been disclosed as a contingent liability in note 24. The Company does not consider it appropriate to make any provision in respect of this claim because there is no certainty as to whether any loss will arise and in the event that it did, it is not possible to reliably estimate the amount of any settlement. Similarly, no asset has been recognised for our counterclaim as there is no certainty as to whether the claim will be successful.

Notes (continued)

2 Operating profit

Turnover is analysed as follows:

	2020 £000	2019 £000
Sale of goods	547,474	588,384
Financial services	285,820	293,225
Total turnover	<u>833,294</u>	<u>881,609</u>

The Company has one significant geographical segment, which is the United Kingdom. Revenue derived from international markets amounted to £4,565,000 (2019: £4,714,000). All segment assets are located in the UK, Ireland and the US.

Exceptional items are analysed as follows:

	2020 £000	2019 £000
Impairment of tangible assets, intangible assets and brands	1,926	24,862
Strategy review costs	3,837	-
VAT partial exemption (credit)/ cost	(3,117)	49,415
Other tax matters including associated legal and professional fees	2,115	8,330
Clearance store closure (credit) /costs	(270)	22,004
Financial services customer redress (see note 21)	22,925	45,007
Legal costs	1,048	-
GMP equalisation adjustment	-	270
	<u>28,464</u>	<u>149,888</u>

Impairment of tangible, intangible assets and investments in subsidiaries

In accordance with the requirements of IAS 36 management have assessed the carrying value of the intangible and tangible assets held in respect of the High & Mighty, Slimma, Diva and Dannimac brands, and following this review, as well as the refocus to the Company's key five brands following a full strategic review, the remaining value of the intangible asset held for these brands (£1.9m) has been written down in full.

In the prior year, management assessed the carrying value of the intangible and tangible assets held in respect of Figleaves and following this review wrote down the full value of the brand (£7.1m), tangible fixed assets (£1.5m) and deferred tax asset of £3.0m in relation to future unutilised tax losses. Also in the prior year, the Company terminated an agreement with a third-party IT Financial Services provider, Welcom Digital Limited ("WDL"). Following a detailed review of capitalised development spend held in respect of this item a non-cash impairment charge of £11.4m was made.

Notes (continued)

2. Operating profit (continued)

Strategy Review costs

During the period, the Group Board has undertaken a strategic review and has approved a multi-year transformation of the business. Fundamental to delivering this strategic transformation is a material level of cost reduction and increased focus and refinement of the Company's key five brands. As part of this initiative, the Company has incurred costs that are substantial in scope and impact, and incremental to the Company's normal operational and management activities, and have therefore been recognised within exceptional costs. Total costs of £3.8m incurred relate to £1.7m of redundancy costs, £1.8m of consultancy costs incurred in relation to the brand refinement and £0.3m being the write off of stock relating to brands that will no longer continue to trade.

VAT partial exemption

In the prior year, a total exceptional charge of £49.4m was incurred in relation to the write off of the reassessment of the VAT debtor previously held by the Company. The Company was in a long-running dispute with HMRC with respect to the VAT treatment of certain marketing and non-marketing costs and the allocation of those costs between our retail and credit businesses. The case was heard in a first tier VAT tribunal in May 2018 with a draft decision being issued in November 2018 which was made public in March 2019. Following the final ruling, the asset was no longer considered recoverable and therefore fully written off.

Since this date the Company has been in discussions with HMRC to settle this matter and has now reached agreement in respect of the amount payable. As at 29 February 2020, the Company held a creditor of £3.8m (£6.6m at 2 March 2019) in respect of this matter, being management's best estimate of the liability to settle, including interest payable, with the decrease since the prior year end being due to lower VAT disallowance identified as part of the detailed resolution process. In September 2020, the Company paid in full the final VAT settlement for this matter with the interest relating to this amount expected to be paid in full in November 2020.

This has resulted in a total credit to the profit and loss account of £2.8m, of which £3.1m relating to the legacy years under discussion has been taken as a credit against exceptional items and a £0.3m charge has been recognised in current year operating profit.

Other tax matters including associated legal and professional fees

Of the total charge of £2.4m, £1.3m relates to further expenses in relation to legacy tax issues. The remaining £1.1m relate to legal and professional fees incurred as a result of the Company's ongoing disputes with HMRC regarding a number of historical VAT matters and tax positions. Of the amount charged in the period, the Company has made related cash payments of £1.9m (2019: £2.8m).

Closure costs

In line with our strategy of reshaping our retail offering, following a period of consultation with all staff involved in our store estate, the decision was made to close all remaining retail outlets at the end of August 2018. This review resulted in an exceptional cost of £22.0m in respect of onerous lease provisions, other related store closure costs and asset write offs of £5.7m in the prior year. The onerous lease provision will run to the earlier of the break clause or lease expiry for all stores. The credit of £0.3m in the current year relates to a release of amounts no longer required in relation to properties that have now been exited.

Customer redress

During the prior period, a charge of £16.5m was made to reflect the additional expense following the completion of the customer redress programme in relation to flaws in certain insurance products which were provided by a third-party insurance underwriter. In addition, a charge of £28.5m was recognised to reflect an updated estimate following an increase in the volume of PPI claims and the latest assessment of the expected uphold rate and average redress per claim.

In the current period, in line with wider industry experience, the volume of PPI information requests and claims received in the final days leading up to and including the 29 August 2019 deadline was significantly higher than expected and therefore an additional charge of £25.0m was recognised at 31 August 2019. The final amount of customer redress including that relating to estimated Official Receiver complaints was less than envisaged as at 31 August 2019 and therefore in the second half of the year a £2.1m credit for customer redress was recorded, resulting in a £22.9m charge for the full year. Included in this amount is £1.3m of withholding tax incurred in relation to interest applied on PPI claims which has been reclassified to exceptional costs.

Notes *(continued)*

2. Operating profit *(continued)*

Legal costs

A £1.0m provision for future expected legal costs to defend the Allianz Insurance plc claim and continuing to proceed with the counterclaim referred to in note 24 has been recognised in the year.

GMP equalisation

An exceptional pension cost arose in the prior year as a result of the High Court ruling in the case of Lloyds Bank in relation to Guaranteed Minimum Pension ("GMP") equalisation. Whilst this may still be subject to appeal, we have made an exceptional provision of £0.3m for the expected one-off impact of GMP equalisation on the reported liabilities of the Company's defined benefit pension scheme.

Notes *(continued)*

3 Finance charges (net)

	2020 £000	2019 £000
Interest payable and similar charges		
Interest on bank and intercompany loans, lease liabilities and overdrafts	22,016	20,334
Debt factoring charge	-	1,873
	<hr/>	<hr/>
Total interest payable	22,016	22,207
Interest credit on bank and intercompany loans	(536)	(658)
Interest credit on pension scheme assets and liabilities	(690)	(543)
	<hr/>	<hr/>
Total interest receivable	(1,226)	(1,201)
	<hr/>	<hr/>
Net interest payable	20,790	21,006
	<hr/>	<hr/>

4 Profit /(Loss) on ordinary activities before taxation

Profit /(Loss) on ordinary activities before taxation is stated after charging:

	2020 £'000	2019 £'000
Depreciation of property, plant and equipment	4,171	4,433
Loss on disposal of property, plant and equipment and intangible assets	-	5,732
Amortisation of intangible fixed assets	24,630	25,628
Depreciation of right of use assets	1,258	-
Cost of inventories recognised as expense	288,600	284,989
Operating lease rentals	947	2,326
Exceptional items	28,464	149,888
Charitable donations	121	115
	<hr/>	<hr/>

Fees paid to the Company's auditor, KPMG LLP and its associates for the audit of the Company were £400,000 (2019: £200,000). Fees paid for services other than the statutory audit of the Company are not disclosed in the company's financial statements since the consolidated financial statements of the Company's parent, N Brown Group plc, are required to disclose non-audit fees on a consolidated basis.

Included in cost of sales is a foreign exchange gain of £3,200,000 (2019: Gain of £3,066,000).

5 Staff costs

Particulars of employees (including executive directors) are as shown below:

	2020 £'000	2019 £'000
<i>Employee costs during the period amounted to:</i>		
Wages and salaries	64,397	66,812
Social security costs	5,976	5,638
Other pension costs	5,948	5,450
	<hr/>	<hr/>
	76,321	77,900
	<hr/>	<hr/>

Notes *(continued)*

5 Staff costs (continued)

The average monthly number of persons employed by the Company during the period was as follows:

	2020 Number	2019 Number
Distribution	1,154	1,106
Sales and administration	1,314	1,335
	<hr/>	<hr/>
	2,468	2,441
	<hr/>	<hr/>

Directors' remuneration

Directors' remuneration was as follows:

	2020 £'000	2019 £'000
Aggregate emoluments	2,421	3,213
Company pension contribution to money purchase schemes	97	64
Termination costs	-	41
	<hr/>	<hr/>
	2,518	3,318
	<hr/>	<hr/>

Retirement benefits are accruing to nil directors (2019: nil) under the Company's defined benefit scheme.

The Company made contributions into the Company's defined contribution scheme during the period on behalf of seven directors of £97,187 (2019: £64,094).

Highest paid director

	2020 £'000	2019 £'000
Aggregate emoluments	444	543
Company pension contribution to money purchase schemes	20	35
	<hr/>	<hr/>
	464	578
	<hr/>	<hr/>

Notes *(continued)*

6 Tax on profit on ordinary activities

The tax recognised in the profit and loss account:

	2020 £'000	2019 £'000
UK corporation tax – current year	1,831	(2,493)
UK corporation tax – adjustment in respect of prior year	132	11,061
UK corporation tax – payment for group relief	-	(13,161)
	<hr/>	<hr/>
Total current tax	1,963	(4,593)
	<hr/>	<hr/>
Deferred taxation arising from		
- Origination and reversal of temporary timing differences	4,519	(6,558)
- Adjustments in respect of previous periods	834	(136)
	<hr/>	<hr/>
Total deferred tax (see note 13)	5,353	(6,694)
	<hr/>	<hr/>
Total tax charge/ (credit)	7,316	(11,287)
	<hr/>	<hr/>

In respect of Corporation tax, as at 29 February 2020 the Company has provided a total of £7,567k (2019: £16,768k) for potential tax future charges based upon the Company's best estimation and judgement and advice from external tax advisors.

Notes (continued)

6 Tax on profit on ordinary activities (continued)

The tax for the current period varied from the standard rate of corporation tax in the UK due to the following factors:

	2020 £'000	2019 £'000
Profit/(Loss) for the period	23,631	(53,451)
Total tax expense/(credit)	7,316	(11,287)
Profit/(Loss) excluding taxation	30,947	(64,738)
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	5,880	(12,300)
Expenses disallowable for tax purposes	129	3,147
Gains on exercise of share options	-	-
Utilisation of group tax losses	-	-
Adjustment in respect of prior periods	967	10,925
Effect of change in deferred tax rate	340	102
Payment for group relief	-	(13,161)
Tax (credit)/charge for the period	7,316	(11,287)

UK corporation tax is calculated at 19% (2019: 19%) of the estimated assessable profit for the period.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 29 February 2020 has been calculated based on this rate. In the 11 March 2020 Budget, it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the Company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax liability would have decreased by £890k.

Notes (continued)

7 Intangible assets

	Brands £'000	Customer Database £'000	Goodwill £'000	Software £'000	Total £'000
Cost					
At 4 March 2018	2,017	281	1,619	334,720	338,637
Additions	-	-	-	33,509	33,509
Disposals	-	-	-	(2,433)	(2,433)
At 2 March 2019	2,017	281	1,619	365,796	369,713
Additions	-	-	-	32,733	32,733
Disposals	-	-	-	(35,934)	(35,934)
At 29 February 2020	2,017	281	1,619	362,595	366,512
Amortisation					
At 4 March 2018	76	281	1,619	186,429	188,405
Charge for the period	-	-	-	25,628	25,628
Impairment	15	-	-	12,184	12,199
Disposals	-	-	-	(1,688)	(1,688)
At 2 March 2019	91	281	1,619	222,553	224,544
Charge for the period	-	-	-	24,630	24,630
Impairment	1,926	-	-	-	1,926
Disposals	-	-	-	(35,934)	(35,934)
At 29 February 2020	2,017	281	1,619	211,249	215,166
Net book value					
At 29 February 2020	-	-	-	151,346	151,346
At 2 March 2019	1,926	-	-	143,243	145,169
At 4 March 2018	1,941	-	-	148,291	150,232

Assets in the course of construction included in intangible assets at the period end total £15,200,000 (2019: £35,392,000).

Borrowing costs of £nil (2019 £nil) have been capitalised in the period.

As at 29 February 2020, the Company had entered into contractual commitments for the further development of intangible assets of £10,800,000 (2019: £4,651,000) of which £5,400,000 (2019: £1,480,000) is due to be paid within one year.

A review of the recoverable amount of intangible assets has been performed at the balance sheet date, as the impact of Covid-19 represents an indicator for impairment. The recoverable amount of the Company's total assets has been determined through a value in use calculation. The value in use assessment has been performed over the core Group excluding figleaves CGU, using cashflows from the Group's three year forecast as approved by the Board, and applying a pre tax discount rate of 11.2% to determine whether there are any indicators of impairment at a Company level. No impairment has been identified as a result of this assessment. The Company has taken advantage of the disclosure exemption in FRS101, with regard to the disclosure of the assumptions used and sensitivities applied in this impairment review, with full disclosure of the group assessment included in note 12 to the N Brown Group plc Annual Report and Accounts.

Notes (continued)

8 Tangible assets

	Freehold land and buildings £'000	Fixtures and Equipment £'000	Total £'000
Cost			
At 4 March 2018	59,029	123,222	182,251
Additions	(563)	3,358	2,795
Transfer	563	(563)	-
Disposals	-	(11,582)	(11,582)
	<hr/>	<hr/>	<hr/>
At 2 March 2019	59,029	114,435	173,464
Additions	-	6,525	6,525
Reclassification	-	881	881
Disposals	-	(46,399)	(46,399)
	<hr/>	<hr/>	<hr/>
At 29 February 2020	59,029	75,442	134,471
	<hr/>	<hr/>	<hr/>
Depreciation			
At 4 March 2018	15,410	100,750	116,160
Charge for the period	1,154	3,279	4,433
Impairment	-	66	66
Disposals	-	(6,556)	(6,556)
	<hr/>	<hr/>	<hr/>
At 2 March 2019	16,564	97,539	114,103
Charge for the period	1,183	2,988	4,171
Impairment	-	-	-
Disposals	-	(46,399)	(46,399)
	<hr/>	<hr/>	<hr/>
At 29 February 2020	17,747	54,128	71,875
	<hr/>	<hr/>	<hr/>
Net book value			
At 29 February 2020	41,282	21,314	62,596
	<hr/>	<hr/>	<hr/>
At 2 March 2019	42,465	16,896	59,361
	<hr/>	<hr/>	<hr/>
At 4 March 2018	43,619	22,472	66,091
	<hr/>	<hr/>	<hr/>

Assets in the course of construction included in fixtures and equipment at the period end date total £8,700,000 (2019: £2,287,000) and in land and buildings £nil (2019: £ nil). No depreciation has been charged against these assets (2019: £nil).

All land and buildings are subject to depreciation, except for land held under freehold which is not depreciated.

At 29 February 2020 the Company had not entered into any contractual commitments for the acquisition of property, plant and equipment (2019: £nil).

Disposals relate to the retirement of assets no longer in service. All retired assets were fully depreciated and therefore no profit or loss arose as a result (2019: £5,026,000).

The reclassification of £881,000 in the year relates to engineering stock reclassified from inventory in line with IAS 16.

Notes (continued)

9 Fixed asset investments

Subsidiary undertakings

	2020 £'000	2019 £'000
Net book value at start of year	4,547	16,502
Impairment in year	-	(11,955)
	<u>4,547</u>	<u>4,547</u>

Provisions of £19,715,000 (2019: £19,715,000) are recorded against a historic cost of £24,262,000 (2019: £24,262,000). The impairment of £11,955,000 in the prior year relates to Fingleaves branded assets.

The principal subsidiary undertakings of the Company are as follows:

Company	Principal activity	Country of incorporation and operation	Ordinary Shareholding
Oxendale & Company Limited	Direct home shopping retailer	Republic of Ireland	100%
Speciality Home Shopping (US) Limited	Direct home shopping retailer	England	100%

Details of all the Company's subsidiary undertakings including those that are not principal and are non-trading are disclosed in note 21.

10 Stocks

	2020 £'000	2019 (restated) £'000
Finished goods	94,447	111,036
Sundry stocks	340	1,307
	<u>94,787</u>	<u>112,343</u>

A net charge of £11,200,000 (2019: £12,600,000) has been made in respect of written down inventories. £300,000 of this has been taken to exceptional costs being the write off of stock relating to brands that will no longer continue to trade. The right of return asset in inventory amounted to £3,900,000 (2019: £3,900,000).

Sundry stocks relate to packaging stocks.

The comparative figures have been restated for the impact of stock in transit as disclosed in note 25.

Notes (continued)

11 Trade and other receivables

	2020 £'000	2019 (restated) £'000
Trade debtors	578,120	576,414
Amounts owed by group undertakings	63,133	60,213
Other debtors	45,067	35,002
Prepayments and accrued income	25,632	26,973
	<u>711,952</u>	<u>698,602</u>

The comparative figure for Prepayments has been restated for the impact of stock in transit as disclosed in note 25.

Trade debtors are measured at amortised cost.

A weighted average APR of 57.9% (2019: 59.2%) is charged on the outstanding balance. Provision for impairment of receivables is calculated using an "expected credit loss" (ECL) model. For customers who find themselves in financial difficulties, the Company may offer revised payment terms to support the customer, encouraging customer rehabilitation and thereby maximising long-term returns. These revised terms may also include suspension of interest for a period of time.

Before accepting any new customers, the Company uses an external credit scoring system to assess the potential customer's credit quality and bespoke credit limit. Credit limits and scores attributed to customers are reviewed every 28 days.

The movement in the allowance for expected credit losses included within the Trade debtors balance shown above during the year comprises:

	2020 £'000	2019 £'000
Balance at beginning of the year	96,794	48,465
IFRS 9 adjustment to opening balance	-	67,200
ECL impairment	139,495	115,450
Utilised during the period	(165,645)	(134,321)
	<u>70,644</u>	<u>96,794</u>

	2020 £'000
Impairment	(139,495)
Recoveries	16,990
Other items	(2,149)
Net impairment charge	<u>(124,654)</u>

Further analysis of the constituents of the net impairment charge in the profit and loss account and the movement in the allowance for expected credit losses has been provided in this year's financial statements.

The amounts written off in the period of £159.3m include the sale of impaired assets with a net book value of £19.9m.

The concentration of credit risk is limited due to the customer base being large and unrelated and comprising 1.0 million (2019: 1.04 million) customers.

The Company has a deemed loan liability of £419.6m (2019: £390.2m) relating to the consideration received from Planetree limited for the sale of receivables (current and 0–28 days past due) of the Company which the Company continues to recognise on its own balance sheet. and is without recourse to any of the Company's other assets.

Notes (continued)

12 Trade and other payables: Amounts falling due within one year

	2020 £'000	2019 (restated) £'000
Trade creditors	70,475	78,979
Amounts owed to group undertakings	769,646	677,954
Accruals and deferred income	28,111	66,756
Social security and other taxes	7,526	14,766
Other creditors	1,142	435
	<u>876,900</u>	<u>838,890</u>

The comparative for Accruals and deferred income has been restated for the impact of stock in transit as disclosed in note 25.

Loans payable to group undertakings are unsecured, have no fixed date for repayment and interest is paid at a rate of 3% plus the Bank of England 12 month Libor rate.

Amounts owed to group undertakings includes a deemed loan liability of £419.6m (2019: £390.2m) due to Planetree limited, the securitisation trust, in respect of consideration received for the sale of customer receivables which the company continues to recognise on its balance sheet.

"Social security and other taxes" include a net VAT creditor, comprising the VAT debtor which arises from day to day trading together with amounts in relation to matters which are in discussion with HMRC. The Company was in a long-running dispute with HMRC with respect to the VAT treatment of certain marketing and non-marketing costs and the allocation of those costs between our retail and credit businesses. The case was heard in a first tier VAT Tribunal in May 2018 with a draft decision being issued in November 2018 which was made public in March 2019.

Since this date the Company has been in discussions with HMRC to settle this matter and whilst substantial progress has been made, a final binding agreement had not yet been reached at the reporting date. As at 29 February 2020, the Company holds a creditor of £3.8m (£6.6m at 2 March 2019) in respect of this matter, being management's best estimate of the liability to settle, with the decrease since the prior year end being due to the actualisation of the previously estimated cost disallowance

The case had two key aspects, being attribution which is in respect of whether marketing costs can be directly attributed to product revenue or financial services income and secondly apportionment which is surrounding the allocation of marketing costs between the retail and financial services business. With respect to attribution, the judge agreed with HMRC, finding that when the Group is marketing goods it is also in effect marketing financial services, even if there is no reference to this in its marketing materials. The judge however ruled against HMRC's standard method of apportionment of costs (which is based on the proportion of total UK revenue which is generated from product sales).

At the reporting date a final outcome had not yet been achieved, following the final ruling management have reviewed the provision held as at March 2019 and as a result of this reduced liability by £3.1m. The Group had not yet been assessed by HMRC for the period June 2017 to February 2020. However, adjustments have been made to the VAT returns throughout the period to estimate disallowances; which have resulted in an expense recognised in EBITDA of £0.3m. This results in a total reduction to the provision of £2.8m and a VAT creditor at year end of £3.8m (2019: £6.6m). In September 2020, the Company paid in full the final VAT settlement for this matter with the interest relating to this amount expected to be paid in full in November 2020.

Notes (continued)

13 Deferred Taxation

	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
	£000	£000	£000	£000	£000	£000
Tangible fixed assets	-	-	4,918	6,124	4,918	6,124
Retirement benefit obligations	-	-	9,191	8,392	9,191	8,392
Currency derivatives	-	(265)	540	-	540	(265)
Other timing differences	(484)	(516)	-	-	(484)	(516)
Tax losses	(3,496)	(7,328)	-	-	(3,496)	(7,328)
IFRS 9 transitional adjustment	(9,151)	(10,428)	-	-	(9,151)	(10,428)
Net tax (assets) / liabilities	(13,131)	(18,537)	14,649	14,516	1,518	(4,021)

The movement on deferred taxation comprises:

	2020	2019
	£'000	£'000
At 2 March 2019	(4,021)	9,748
Charged/(credited) to retained earnings, in respect of:		
- adjustment on initial application of IFRS 9	-	(11,705)
- adjustment on initial application of IFRS 15	-	(357)
- adjustment on initial application of IFRS 16	(112)	-
	(4,133)	(12,062)
Charged/(credited) to profit and loss account, in respect of:		
- capital allowances	(1,206)	(2,390)
- currency derivatives	805	594
- other timing differences	145	1,021
- retirement benefit obligation	500	132
- tax losses	3,832	(7,328)
- IFRS 9 current year charge adjustment	1,277	1,277
	5,353	(6,694)
Charged to statement of comprehensive income in respect of		
- retirement benefit obligation	299	4,986
At 29 February 2020	1,518	(4,021)

At the balance sheet date, the Company has unused tax losses of £17.4m (2019: £17.4m) and capital losses of £3.2m (2019: £3.2m) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams within the Company which could be offset by these losses.

Notes (continued)

14 Called-up share capital

	2020 £'000	2019 £'000
Allotted, called-up and fully-paid		
114,878,264 Ordinary shares of £1 each (2019: 114,978,264)	114,978	114,978

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

Allotted, called-up and fully-paid		
120,040 Ordinary A shares of £1 each (2019: 120,040)	120	120

The Ordinary A shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

Allotted, called-up and fully-paid		
120,040 Ordinary B shares of £1 each (2019: 120,040)	120	120

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

15 Dividend

During the period a dividend of £nil (2019: £25,000,000) was declared and paid.

Notes (continued)

16 Retirement benefit schemes

Defined contribution scheme

The Company operates a defined contribution retirement benefit scheme for all qualifying employees. The Company is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefit scheme is to make the specified contributions. The total cost charged to income of £5.9m (2019: £5.4m) represents contributions payable to the schemes by the Company at rates specified in the rules of the plans. As at 29 February 2020, contributions of £0.1m (2019: £0.1m) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit scheme

The Company operates a defined benefit scheme, the N Brown Group Pension Fund. Under the scheme, the employees are entitled to retirement benefits based on final pensionable earnings and was closed to new members from 31 January 2002. On 29 February 2016 the scheme was closed to future accrual. No other post-retirement benefits are provided. The scheme is a funded scheme and operates under UK trust law and the trust is a separate legal entity from the Company. The scheme is governed by a board of trustees. The trustees are required by law to act in the best interests of scheme members and are responsible for setting certain policies (e.g. investment funding) together with the Company. The scheme exposes the Company to actuarial risks such as longevity risk, interest rate risk and investment risk.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by an independent qualified actuary. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. The principal actuarial assumptions used in determining the Company's net retirement benefit obligations at the balance sheet date were as follows:

The major assumptions used for the actuarial valuation were:

	2020	2019
Rate of increase in pensions in payment	2.00%	2.05%
Inflation - Retail price index	2.85%	3.40%
Inflation - Consumer price index	2.05%	2.40%
Discount rate	1.75%	2.80%
Life expectancy at age 65 (years):		
Pensioners aged 65 - male	22.0	22.2
Pensioners aged 65 - female	23.4	23.6
Non-pensioner aged 45 - male	23.8	24.0
Non-pensioner aged 45 - female	25.7	25.9

Amounts recognised in the profit and loss account in respect of the defined benefit scheme are as follows:

	2020 £'000	2019 £'000
Past service cost	-	270
Net interest (credit)	(690)	(543)
Administrative expenses paid from plan assets	128	-
	<u>(562)</u>	<u>(273)</u>

Amounts recognised in other comprehensive income are as follows:

	2020 £'000	2019 £'000
Actual return less expected return on pension scheme assets	20,073	(3,108)
Changes in assumptions underlying the present value of the scheme liabilities	(19,218)	7,047
	<u>855</u>	<u>3,939</u>

The actual return on scheme assets was £23,800,000 (2019: £683,000).

Notes (continued)

16 Retirement benefit schemes (continued)

The amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit retirement benefit scheme is as follows:

	2020 £'000	2019 £'000
Present value of defined benefit obligations	(130,891)	(112,019)
Fair value of scheme assets	157,151	135,995
	<u>26,260</u>	<u>23,976</u>
Deferred tax liability	<u>(9,191)</u>	<u>(8,392)</u>

The surplus reflects the economic benefit at the balance sheet date that the Company would be entitled to, through refund, in the event that the scheme was wound up.

Movements in the fair value of scheme assets were as follows:

	2020 £'000	2019 £'000
At start of period	135,995	139,955
Interest income	3,776	3,791
Return on scheme assets excluding interest income	20,073	(3,108)
Contributions	867	500
Benefits paid	(3,432)	(5,143)
Administrative expenses paid from plan assets	(128)	-
At end of period	<u>157,151</u>	<u>135,995</u>

Movements in the present value of defined benefit obligations were as follows:

	2020 £'000	2019 £'000
At start of period	112,019	120,691
Interest cost	3,086	3,248
Past service cost	-	270
Remeasurement (gain)/loss		
a. Effect of changes in financial assumptions	19,092	(414)
b. Effect of experience adjustments	-	(3,325)
c. Effect of changes in demographic assumptions	126	(3,308)
Benefits paid	(3,432)	(5,143)
At end of period	<u>130,891</u>	<u>112,019</u>

The analysis of the scheme assets at the balance sheet date was as follows:

	2020 £'000	2020 %	2019 £'000	2019 %
Equities	15,247	9.7	16,615	12.2
Fixed-interest government bonds	398	0.3	11,126	8.2
Index-linked government bonds	13,806	8.8	40,420	29.7
Corporate bonds	89,154	56.6	50,419	37.1
Property	1,797	1.1	1,713	1.3
Growth fixed income	14,332	9.2	8,936	6.6
Alternatives	1,560	1.0	4,355	3.2
Cash and cash equivalents	20,857	13.3	2,411	1.7
	<u>157,151</u>	<u>100</u>	<u>135,995</u>	<u>100</u>

Notes (continued)

16 Retirement benefit schemes (continued)

The estimated amounts of contributions expected to be paid to the scheme during the next financial year is £1,000,000 (2019: £750,000).

Significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, inflation and life expectancy.

- An increase of 0.25% in the discount rate used would decrease the defined benefit obligation by £6,900,000 (2019: £5,300,000).
- An increase of 0.25% in the inflation assumption would increase the defined benefit obligation by £3,800,000 (2019: £4,500,000).
- An increase of one year in the life expectancy assumption would increase the defined benefit obligation by £4,600,000 (2019: £3,500,000).

The above sensitivities are applied to adjust the defined benefit obligation at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows under the scheme, it does provide an approximation to the sensitivity of the assumptions shown. No changes have been made to the method and assumptions used in this analysis from those used in the previous period.

17 Guarantees and other financial commitments

a) Guarantees

The Company has jointly and severally guaranteed certain bank overdrafts and certain other liabilities of the Company's ultimate parent undertaking and certain fellow subsidiary undertakings. At 29 February 2020, this indebtedness amounted to £173.0m (2019: £128.4m).

b) Lease commitments

At the prior year balance sheet date the Company had outstanding commitments for future minimum lease payments under non- cancellable operating lease rentals payable as follows:

2019	Leasehold property £'000	Other £'000	Total £'000
Less than one year	1,073	938	2,011
Between one and five years	2,596	1,467	4,063
More than five years	1,731	-	1,731
	<hr/> 5,400	<hr/> 2,405	<hr/> 7,805

In the current year the Company has adopted IFRS 16, and the disclosures in respect of leases for current year are included within note 20.

Notes (continued)

18 Derivative financial instruments

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

	2020 £'000	2019 £'000
Notional amount – Sterling contract value	305,926	271,411
Fair value of assets/(liabilities) recognised	3,179	(1,557)

The fair value of foreign currency derivatives contracts is their market value at the balance sheet date. Market values are calculated with reference to the duration of the derivative instrument together with the observable market data such as spot and forward interest rates, foreign exchange rates and market volatility at the balance sheet date.

Changes in the fair value of assets recognised, being non-hedging currency derivatives, amounted to a gain of £4,735,000 (2019: gain of £4,461,000) to income in the period.

The financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 2 (2019: Level 2).

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

There were no transfers between Level 1 and Level 2 during the current or prior period.

19 Financial Instruments

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

	2020 £'000	2019 £'000
Less than 6 months	142,553	125,369
6 to 12 months	99,223	63,085
12 to 18 months	41,232	50,019
Greater than 18 months	22,918	32,938
	305,926	271,411

Forward contracts outstanding at the period end are contracted at US dollar exchange rates ranging between 1.89 and 1.36

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2020 £000	2019 £000	2020 £000	2019 £000
Euro	160	272	7,546	10,124
US dollar	13,817	17,985	26,320	16,228

Notes (continued)

19 Financial Instruments (continued)

Categories of financial instruments

	2020 £000	2019 £000
Financial assets		
Derivatives – at fair value through profit or loss	3,179	-
Cash and cash equivalents – amortised cost	6,768	-
Trade debtors – amortised cost	578,120	576,414
Amounts owed by group undertakings – amortised cost	63,133	60,213
	<hr/>	<hr/>
Financial Liabilities		
Derivatives – at fair value through profit or loss	-	1,557
Trade and other payables – amortised cost	(876,900)	(838,890)
Bank overdraft – amortised cost	-	(37,541)
	<hr/>	<hr/>

The following are the contractual maturities of derivative financial instruments carried at fair value:

	2020 Carrying Amount £000	2020 Contractual Cash flows £000	2020 1 year or less £000	2020 1 to <2 years £000	2020 2 to <5 years £000	2020 5 years and over £000
2020						
Derivatives: gross settled						
Cash inflows	5,373	5,373	4,047	1,326	-	-
Cash outflows	(2,194)	(2,194)	(1,322)	(872)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	3,179	3,179	2,725	454	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	2019 Carrying Amount £000	2019 Contractual Cash flows £000	2019 1 year or less £000	2019 1 to <2 years £000	2019 2 to <5 years £000	2019 5 years and over £000
2019						
Derivatives: gross settled						
Cash inflows	2,912	2,912	2,086	826	-	-
Cash outflows	(4,469)	(4,469)	(2,101)	(2,368)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(1,556)	(1,556)	(15)	(1,541)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The company has taken the exemptions available under FRS 101 to provide further disclosures required under IFRS 7 for all financial instruments other than those held at fair value through profit and loss. Full disclosures can be found in note 19 to the N Brown Group plc Annual Report and Accounts.

Notes (continued)

20 Leases

The company leases various buildings, equipment and vehicles under non-cancellable operating leases. In accordance with IFRS 16, from 3 March 2019 the Company has recognised right-of-use assets for these leases, further information on the amounts recognised in the balance sheet are included within this note, and within note 1.

Amounts recognised in the Balance Sheet

The balance sheet as at 29 February 2020 shows the following amounts relating to leases. As IFRS 16 has not been applied retrospectively the balances alongside represent the equivalent balances at the start of the accounting period after restating for IFRS 16, but not recognised in the prior year:

	Fixtures and Equipment £'000	Land and buildings £'000	Total £'000
Right of use assets			
At 3 March 2019	1,514	4,473	5,987
Additions	626	-	626
Depreciation	(148)	(1,110)	(1,258)
	<hr/>	<hr/>	<hr/>
At 29 February 2020	1,992	3,363	5,355
	<hr/>	<hr/>	<hr/>

	2020 £'000	2019 £'000
Lease liabilities		
Current	2,166	3,376
Non Current	4,520	5,847
	<hr/>	<hr/>
	6,686	9,223
	<hr/>	<hr/>

Amounts recognised in the Profit and Loss Account

The Profit and Loss Account shows the following amounts relating to leases:

	2020 £'000	2019 £'000
Depreciation	1,258	-
Interest expense	95	-
Expense relating to leases of low value assets (included in operating expenses)	860	-
Expense relating to leases of short-term leases (included in operating expenses)	87	-
	<hr/>	<hr/>

The total cash outflow for leases during the year was £4,357,000.

In the prior year all leases were classified as operating leases under IAS 17. Because there were no leases classified as finance leases, no lease liabilities or related assets were recognised in the prior year balance sheet. The required disclosures under IAS 17 for these operating leases for the prior year are shown in note 17 under "Lease commitments".

Notes *(continued)*

21 Ultimate parent undertaking and related party disclosures

The directors regard N Brown Group plc, a company incorporated in the United Kingdom and registered in England and Wales, as the ultimate parent company and the ultimate controlling party.

N Brown Group plc is the parent company of the largest and smallest group of which the company is a member and for which group financial statements are drawn up. Copies of the financial statements are available from Griffin House, 40 Lever Street, Manchester, M60 6ES.

As the Company is a wholly owned subsidiary of N Brown Group PLC, the Company has taken advantage of the exemption contained in FRS 101.8 (K) and has therefore not disclosed transactions with wholly owned subsidiaries which form part of the group.

Notes (continued)

21 Ultimate parent undertaking and related party disclosures (continued)

The subsidiary companies that JD Williams & Company Limited owns are listed below:

Company	Registered Office Address	Proportion held by the Company %
Aldrex Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Ambrose Wilson Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Better Living Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Candid Collections Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Classic Combination Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Comfortably Yours Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Crescent Direct Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Cuss Contractors Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Dale House (Mail Order) Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
E Langfield & Co. Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Fashion World Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Figleaves Global Trading Limited	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Whitfords (Bury) Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Whitfords (Textiles) Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Whitfords (Cosytred) Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
The Bury Boot & Shoe Co (1953) Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
First Financial Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Gray & Osbourn Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Halwins Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Hartingdon House Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Health Direct Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Heather Valley (Woollens) Ltd	45 Frederick Street, Edinburgh, EH2 1EP	100%
Hilton Mailing Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
House of Stirling (Direct Mail) Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
J. D. Williams Merchandise Co Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
JDW Finance Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
JDW Pension Trustees Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Langley House Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Mature Wisdom Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Melgold Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Nightingales Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Odhams Leisure Group Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Oxendale & Co. Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Oxendale & Co. Ltd (Eire Reg)	Woodford Business Park, Santry, Dublin 17, Ireland	100%
Reliable Collections Ltd	36 Houldsworth Street, Manchester, Lancashire, M1 1AG	100%
Sander & Kay Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Speciality Home Shopping (US) Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
The Value Catalogue Limited	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
Speciality Home Shopping (US Marketing) LLC	1209 Orange Street, Wilmington, Delaware 19801 USA	100%
Trading By Post Ltd	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%
T-Bra Limited	Griffin House, 40 Lever Street, Manchester, M60 6ES, UK	100%

Notes (continued)

22 Provisions

	Customer Redress £000	Store Closure £000	Restructuring £000
Balance as at 2 March 2019	17,403	7,448	-
Provisions made in the period	22,925	-	1,699
Provisions used in the period	(32,101)	(3,124)	-
Provisions reversed in the period	-	(270)	-
Reclassification at IFRS 16 transition	-	(2,917)	-
Balance as at 29 February 2020	8,227	1,137	1,699
		2020 £000	2019 £000
Non-current		-	-
Current		11,063	24,851
Balance as at 29 February 2020		11,063	24,851

Store closures

At the end of H1 FY19 the decision was made to close all stores and these were subsequently closed in August 2018. The costs were treated as an exceptional item and detailed separately in the profit and loss account as per note 2. The provision was made in respect of onerous lease obligations and other store related closure costs. The majority of these costs have been settled during the current and prior years, and amounts relating to the rental cost have been reclassified to offset against the right-of-use asset recognised at the transition date for IFRS 16, with the provision of £1.1m outstanding as at 29 February 2020 relating primarily to dilapidations and other costs of any remaining stores which will run to the earlier of the break clause or lease expiry for all stores. In the prior year provisions for onerous leases were recognised net of an estimate of potential sub-letting income.

Customer Redress

The provision relates to the Company's liabilities in respect of costs expected to be incurred in respect of payments for historic financial services customer redress, which represents the best estimate of redress obligations, taking into account factors including risk and uncertainty. As at 29 February 2020 the Company holds a provision of £8.2m (2019: £17.4m) in respect of the anticipated costs of historic financial services customer redress. These amounts include a provision of £nil (2019: £0.1m) in relation to administration expenses.

Restructuring

The provision relates to redundancy costs of £1.7m to be incurred by the Company. Prior to the reporting date, the Board approved a formal plan for the restructuring and appropriate communications with those affected were carried out which has created a constructive obligation.

23 Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and other short term highly liquid investments with a maturity of three months or less. Included in the amount disclosed on the balance sheet is £0.6m (2019: £0.9m) of restricted cash which is held in respect of the Company's customer redress programmes.

Notes (continued)

24 Contingent Liabilities

Until 2016, the Company sold (amongst other insurance products) payment protection insurance (“PPI”) and product protection (“PP”) insurance policies to its customers when they bought the Company’s products. Both insurance policies were underwritten by Allianz Insurance plc (“Allianz”) until 2014. The Company was an unregulated entity prior to 14 January 2005 in respect of the sale of PPI (“pre-2005”). The regulated entity for PPI sales prior to this date was Allianz.

In recent years, the Company and Allianz have paid out significant amounts of redress to customers in respect of PPI and PP. In July 2014 the Company and Allianz entered into an indemnity agreement in respect of certain PPI mis-selling liabilities (the “Indemnity Agreement”). In September 2018, the Company and Allianz entered into a Complaints Handling Agreement (CHA) to regulate complaints handling and redress payments for both parties in respect of PPI policies purchased pre-2005.

In January 2020, a claim was issued against the Company by Allianz in respect of all payments of PPI redress paid by Allianz to the Company’s customers together with all associated costs. Allianz have made a claim in contribution as well as asserting a number of claims in relation to:

- the Indemnity Agreement;
- alleged negligence as its agent; and
- alleged breaches of the CHA.

In March 2020 the Company issued its defence which refuted each element of the claim and also issued counterclaims in respect of redress payments the Company has paid to its customers in respect of PPI and PP insurance policies underwritten by Allianz. the Company has claimed that:

- Allianz is liable to compensate the Company for such loss and damage by way of a contribution to the Company’s liability in relation to PP policies;
- Allianz has been unjustly enriched to the extent that its liability to the complainants was discharged and the Company seeks restitution of all such sums; and
- the Company seeks contribution from Allianz in respect of sums paid by the Company pursuant to the CHA as Allianz was also liable for the same damages in relation to PPI.

All claims made by Allianz, and counterclaimed by the Company, remain subject to final determination by the court, both as to their success and quantum. The claim and counterclaim are extremely complex. The Case Management Conference in relation to this matter was held in September 2020. Both parties are now required to go through a protracted timetable including detailed disclosure and preparing expert and witness evidence in relation to all elements of the claim and counterclaim.

Based on the current pleaded case, the total sum claimed by Allianz is £29.4m plus interest. Having taken legal advice on its own position, the Company remains of the view that due to the complexity of the issues it is still not possible to reliably estimate the amount of any potential liability, and has therefore continued to not provide any amount for this claim, but has instead disclosed it as a contingent liability.

There is considerable uncertainty as to the timing of any potential cashflows arising from the legal proceedings. Legal fees are expected to continue to be incurred during FY21 and FY22, but any potential cashflows resulting from the claim may not arise until FY23, given that the trial date has now been set for March 2022 with judgement expected later in 2022.

Notes (continued)

25 Prior year adjustment

During the period ended 29 February 2020, the Company identified that £12.5m of goods in transit as at 2 March 2019 were not recorded as part of the inventory balance as at the prior period end when they should have been. These goods in transit represented the Company's inventories as at 2 March 2019 as the Company had obtained control of these assets, having accepted the goods and gained the risks and rewards of ownership, as at that date, as per their agreed supplier terms.

Part of the goods in transit as at 2 March 2019 was already paid for as at that date and were incorrectly recorded as prepaid balances of £1.1m and £3.8m within 'Trade and other receivables' and 'Trade and other payables' respectively instead of being recorded as inventories. No liability was recorded for the unpaid goods in transit of £7.6m as at 2 March 2019.

As a result, the inventory balance was understated by £12.5m, trade and other receivables were overstated by £1.2m and trade and other payables were understated by £11.3m as at the prior period end.

These adjustments have no impact on the Company's net assets or profit or loss in the prior year and preceding year, and therefore no impact on basic or diluted earnings per share. In addition, within the cashflow statement the movement in inventories, trade and other receivables and trade and other payables have been impacted, however there was no impact on net cash flows from operating activities in either the prior or preceding years.

The prior period has accordingly been restated to correct for these, as shown below. The affected financial statement line items for the prior period are as follows:

	2 March 2019	Adjustment	2 March 2019 (restated)
Balance sheet (extract)	£'000	£'000	£'000
<i>Current Assets</i>			
Inventories	99,848	12,495	112,343
Trade and other receivables	699,761	(1,159)	698,602
<i>Current Liabilities</i>			
Trade and other payables	(829,111)	(11,336)	(840,447)
Net Assets	135,634	-	135,634
Total Equity	135,634	-	135,634

The Company has taken the exemption available to it under FRS101 in respect of presenting the impact on prior year opening balance sheet required under IAS1.

Notes (continued)

26 Equity settled share based payments

Details of the share options/awards outstanding during the period are as follows:

	Option price in pence	Exercise period	Number of shares 2020	Number of shares 2019
Option scheme				
2010 Savings related scheme	189 – 420	May 2010 – February 2022	1,740,653	1,048,234
2010 Executive scheme	238 – 444	May 2010 – August 2024	89,049	89,049
Unapproved executive scheme	238 – 444	May 2010 – August 2024	60,450	60,450
Long-term incentive scheme awards (LTIPs)				
July 2013	–	July 2016 – December 2016	–	–
August 2013	–	August 2016 – February 2017	–	–
August 2014	–	August 2017 – July 2024	–	–
June 2015	–	June 2018 – June 2025	–	–
August 2016	–	August 2019 – August 2026	–	2,437,024
August 2017	–	August 2020 – August 2027	770,817	1,273,015
August 2018	–	August 2021 – August 2028	1,586,211	2,677,133
June 2019	–	September 2022 – August 2029	285,409	–
September 2019	–	September 2022 – September 2029	3,230,819	–
Deferred annual bonus scheme awards (DABs)				
May 2014	–	May 2016 – November 2016	–	–
May 2015	–	May 2017 – November 2017	–	–
May 2016	–	May 2018 – November 2018	–	–
September 2017	–	September 2019 – March 2020	–	85,269
August 2018	–	September 2020 – March 2021	175,401	245,219
June 2019	–	July 2021 – July 2021	163,766	–
Deferred Share Bonus Plan (DSBP)				
June 2019	–	July 2022 – July 2022	84,246	–

Notes (continued)

27. Post Balance Sheet Events

This note sets out the subsequent events which are material to the Company up to the date of this report.

Impact of Covid-19

Although the global spread of Covid-19 began before 29 February 2020, the WHO declaration of a global pandemic and escalation of the virus within the UK took place in March 2020 and was not predictable as at the balance sheet date. For this reason the significant effects of Covid-19 are non-adjusting as at the balance sheet date. Management have considered the potential impact on the 29 February 2020 balance sheet if Covid-19 had been treated as an adjusting event, specifically in regards to the recoverability of its tangible, intangible assets and inventory, the impairment of the trade receivables and fair value of the Company's pension surplus.

Asset Impairment

As the impact of Covid-19 is an indicator for impairment, management is required to test for impairment over the Company's total assets. As at the date of approval of these financial statements, there has been no subsequent impairment impact on the Company's tangible, intangible assets or investments as a result of the impact of Covid-19 on the business.

Inventory

Following the Covid-19 lockdown, management performed an assessment of the Company's inventory holdings in light of the reduced demand in certain product lines, and the N Brown Group's five-year plan, and have taken appropriate steps to reduce the Company's exposure in regard to the Spring/Summer 2020 season by cancelling with no penalty orders no longer needed. Inventory levels were successfully reduced during H1 FY22 through continued trading, to a level of £14.4m lower than the position as at 29 February 2020.

IFRS 9 Allowance for expected credit losses

IFRS 9 requires an entity to measure expected credit losses that reflect reasonable and supportable information that was available at the reporting date about past events, current conditions and forecasts of future conditions. As noted above, as at the 29 February 2020 reporting date, management could not have reasonably foreseen the material change to actual economic conditions that took place between the year-end and the date of approving these financial statements and to forecast future economic conditions that has now arisen due to the impact of the Covid-19 lockdown.

As a result, expected credit losses reported in the 29 February 2020 balance sheet have not been adjusted to include the expected impact of Covid-19 and instead this will be reported in future financial statements of the Company.

The actual impact of Covid-19 on expected credit losses during H1 FY22 was £17m.

To indicate the level of estimation uncertainty, the impact on the expected credit loss ("ECL") of applying different model parameters are shown below:

- a 20% increase in PDs would lead to a £3.6m increase in the ECL;
- a 20% reduction in debt sale prices would lead to a £1.2m increase in the ECL; and
- a 20 percentage point increase in the provision rate applied against all customers who have taken a payment holiday due to Covid-19 would increase the ECL by £4m.

Pension Surplus

Review of the key financial assumptions relating to the Company's defined benefit pension scheme subsequent to the balance sheet date indicates that fluctuations in obligations fall within the range of sensitivities described in note 16. Both decreases to the discount rate and inflation post year end are expected to lead to a marginal increase in the liability. The fair value of plan assets is expected to be volatile in the short term due to uncertain market conditions, with the overall impact on the balance sheet expected to be a reduction in the pension scheme surplus since year end.

Notes (continued)

28. Post Balance Sheet Events (continued)

Proposed equity raise and new financing arrangements of the ultimate parent undertaking

As also explained in note 1, N Brown Group plc ("the Group") is proposing a fully supported equity raise of c.£100 million and has secured new financing arrangements from its long-standing supportive lenders.

All the Resolutions required to approve the equity raise were passed at the Group's General Meeting held on 23 November 2020.

On 30 October 2020, the Group secured irrevocable commitments from its lenders to provide extensions to its RCF and securitisation facilities as described below, with separate fully committed structures agreed to cover either the capital raise transacting or not transacting. Previously the RCF facility of £125 million was committed until October 2021 and the securitisation facility of £500 million until December 2021. The extended facilities include financial covenants and market-standard material adverse change clauses that are consistent with the Group's previous facility agreements.

In the event of the capital raise transacting

If the c.£100m capital raise transacts the resulting funding facilities following completion in December 2020 would be as follows:

- An up to £500 million securitisation facility committed until December 2023, drawings on which are linked to prevailing levels of eligible receivables;
- An RCF of £100 million committed until December 2023;
- An overdraft facility of £27.5 million which is subject to an annual review every July; and
- The £50m CLBILS Term Loan Facility committed until May 2023 will be repaid and handed back without penalty.

In the event of the capital raise not transacting

If the capital raise does not transact the resulting funding facilities following completion in December 2020 would be as follows:

- An up to £500 million securitisation facility committed until December 2023, drawings on which are linked to prevailing levels of eligible receivables, identical to the capital raise scenario;
- An RCF of £100 million reducing to £50m from October 2021, committed until May 2022; and
- An overdraft facility of £27.5 million which is subject to an annual review every July; and
- A £50 million CLBILS Term Loan Facility committed until May 2023.