

Registered number: 00310156

**BALLY UK SALES LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2016**

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BALLY UK SALES LIMITED

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BALLY UK SALES LIMITED

COMPANY INFORMATION

| | |
|----------------------------|--|
| Directors | E Schwendimann F F G M De Narp S Bertinotti N D Giroto |
| Company secretary | D & A Secretarial Services Limited |
| Registered number | 00310156 |
| Registered office | Salisbury House London Wall London EC2M 5PS |
| Independent auditor | Blick Rothenberg Audit LLP 16 Great Queen Street Covent Garden London WC2B 5AH |

BALLY UK SALES LIMITED

STRATEGIC REPORT

FOR YEAR ENDED 31 DECEMBER 2016

Introduction

The directors present their strategic report on the company for the year ended 31 December 2016. The principal activity of the company during the year continued to be that of selling footwear, clothing and accessories.

Business review

Turnover for the year ended 31 December 2016 amounted to £7,580,000, a decrease of 7.68% when compared to the turnover generated in the 11 month period ended 31 December 2015 of £8,211,000. This decrease is mainly attributable to the closure of three stores, Brompton Road, Hackney and Heathrow Terminal 3.

The gross margin percentage decreased from 62.7% in the period ended 31 December 2015 to 56.8% in the year ended 31 December 2016. In absolute terms, the gross profit for the year ended 31 December 2016 amounted to £4,304,000 compared with £5,152,000 in the prior period.

Principal risks and uncertainties

The directors have considered the following risks and uncertainties facing the company:

- Competition from existing fashion brands

The directors have taken measures to minimise the company's exposure to this risk and review it on an ongoing basis.

- Pension scheme deficit

The pension scheme in which the company participates is currently showing a deficit of £1,366,000. If the value of the scheme assets were to decline relative to its liabilities, the company may need to make additional contributions to cover any shortfall. This could have an adverse impact on the cash balance of the company. The company and the trustees of the pension scheme meet regularly and receive advice from external actuaries and investment advisors.

Financial risk management objectives and policies

- Liquidity risk

The company has a working capital cycle resulting in peak requirement periods in the year. The company manages its cash requirements to ensure that it has sufficient liquid resources to meet the operating needs of the business.

- Credit risk

Sales in the company's retail stores do not give rise to credit risk.

- Foreign exchange risk

The company purchases stock in sterling and as such is not exposed to significant foreign exchange risk.

BALLY UK SALES LIMITED
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

Financial key performance indicators

Financial key performance indicators of the company are as follows.

- sales by FTE's "Full Time Equivalent",
- items per transaction,
- transaction values, and
- average items per transaction, average value per transaction and conversion rates.

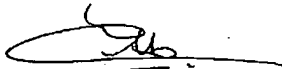
These are monitored by Group headquarters as well as the Board of Directors of the UK Company.

Other key performance indicators

The directors are committed to promoting the health, safety and welfare of their staff at the company's premises.

The directors are mindful of the environmental issues and have sought to minimise the impact of the company's activities on the environment.

This report was approved by the board and signed on its behalf.



N D Girotto
Director

Date: 29.09.2017

BALLY UK SALES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Results and dividends

The loss for the year, after taxation, amounted to £4,491,000 (11 months to December 2015: loss £2,648,000).

The directors do not recommend a dividend.

Directors

The directors who served during the year were:

E Schwendimann
M Smickoski (resigned 11 August 2016)
F F G M De Narp
M Comazzi (resigned 8 May 2017)
S Bertinotti
N D Girotto

Matters covered in the strategic report

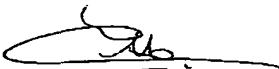
As permitted by S414c(11) of the Companies Act, the directors have elected to disclose information, required to be in the Directors' Report by Schedule 7 of the 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008', in the strategic report.

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report was approved by the board and signed on its behalf.



N D Girotto
Director

Date: 29.09.2017

BALLY UK SALES LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

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 year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BALLY UK SALES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BALLY UK SALES LIMITED FOR THE YEAR ENDED 31 DECEMBER 2016

We have audited the financial statements of Bally UK Sales Limited for the year ended 31 December 2016, set out on pages 8 to 31. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the strategic report and the directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit, the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with those financial statements and such reports have been prepared in accordance with applicable legal requirements.

BALLY UK SALES LIMITED

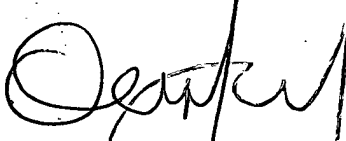
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BALLY UK SALES LIMITED (continued) FOR THE YEAR ENDED 31 DECEMBER 2016

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept, 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.



Andrew Sanford (Senior statutory auditor)

for and on behalf of
Blick Rothenberg Audit LLP

Statutory Auditor

16 Great Queen Street
Covent Garden
London
WC2B 5AH

Date: 18 October 2017

BALLY UK SALES LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016.**

| | | 31 December 2016 £000 | 11 months ended 31 December 2015 £000 |
|--|-------------|--|--|
| Turnover | Note | | |
| | 4 | 7,580 | 8,211 |
| Cost of sales | | (3,276) | (3,059) |
| Gross profit | | 4,304 | 5,152 |
| Administrative expenses | | (16,605) | (15,373) |
| Other operating income | | 7,787 | 7,490 |
| Operating loss | | (4,514) | (2,731) |
| Interest receivable and similar income | 9 | 1,682 | 1,325 |
| Interest payable and similar charges | 10 | (1,659) | (1,381) |
| Loss on ordinary activities before taxation | | (4,491) | (2,787) |
| Taxation on loss on ordinary activities | 11 | - | 139 |
| Loss for the financial year | | (4,491) | (2,648) |

BALLY UK SALES LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

| | 31 December 2016 £000 | 11 months ended 31 December 2015 £000 |
|---|--|--|
| Loss for the financial year | (4,491) | (2,648) |
| Other comprehensive income | | |
| Actuarial (loss)/gain on defined benefit schemes | (2,717) | 883 |
| Other comprehensive income for the year/period | (2,717) | 883 |
| Total comprehensive income for the year/period | (7,208) | (1,765) |

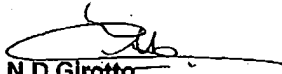
BALLY UK SALES LIMITED

REGISTERED NUMBER:00310156

**BALANCE SHEET
AS AT 31 DECEMBER 2016**

| | Note | 2016 £000 | 2015 £000 |
|---|------|-----------------|-----------------|
| Fixed assets | | | |
| Tangible assets | 12 | 9,794 | 10,918 |
| | | <u>9,794</u> | <u>10,918</u> |
| Current assets | | | |
| Stocks | 13 | 2,616 | 4,157 |
| Debtors | 14 | 1,063 | 1,527 |
| Cash at bank and in hand | | 446 | 366 |
| | | <u>4,125</u> | <u>6,050</u> |
| Creditors: amounts falling due within one year | 15 | (27,872) | (24,724) |
| Net current liabilities | | <u>(23,747)</u> | <u>(18,674)</u> |
| Total assets less current liabilities | | <u>(13,953)</u> | <u>(7,756)</u> |
| Creditors: amounts falling due after more than one year | 16 | (465) | (569) |
| Provisions for liabilities | | | |
| Other provision | 18 | (24) | (42) |
| | | <u>(24)</u> | <u>(42)</u> |
| Pension liability | 21 | (1,366) | (76) |
| Net liabilities | | <u>(15,808)</u> | <u>(8,443)</u> |
| Capital and reserves | | | |
| Called up share capital | 19 | 100 | 100 |
| Capital redemption reserve | 20 | 31,578 | 31,578 |
| Profit and loss account | 20 | (47,486) | (40,121) |
| | | <u>(15,808)</u> | <u>(8,443)</u> |

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



N D Grotto
Director

Date: 29.09.2017

BALLY UK SALES LIMITED**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Called up share capital £000 | Capital redemption reserve £000 | Profit and loss account £000 | Total equity £000 |
|--|------------------------------------|--|------------------------------------|----------------------|
| At 1 February 2015 | 100 | 31,578 | (38,356) | (6,678) |
| Loss for the financial period | - | - | (2,648) | (2,648) |
| Actuarial gains on pension scheme | - | - | 883 | 883 |
| Total comprehensive income for the period | - | - | (1,765) | (1,765) |
| At 1 January 2016 | 100 | 31,578 | (40,121) | (8,443) |
| Loss for the financial year | - | - | (4,491) | (4,491) |
| Actuarial losses on pension scheme | - | - | (2,874) | (2,874) |
| Total comprehensive income for the year | - | - | (7,365) | (7,365) |
| At 31 December 2016 | 100 | 31,578 | (47,486) | (15,808) |

BALLY UK SALES LIMITED**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | 2016 £000 | 2015 £000 |
|---|--------------|--------------|
| Cash flows from operating activities | | |
| Loss for the financial year | (4,491) | (2,648) |
| Adjustments for: | | |
| Depreciation of tangible assets | 1,457 | 1,484 |
| Interest paid | 1,659 | 1,380 |
| Interest received | (1,682) | (1,325) |
| Decrease in stocks | 1,541 | 1,168 |
| Decrease in debtors | 250 | 506 |
| Decrease in creditors | (2,230) | (3,834) |
| Increase in amounts owed to groups | 5,366 | 5,110 |
| Decrease in provisions | (18) | (42) |
| Post employment benefits less payments | (1,427) | (1,242) |
| Net cash generated from operating activities | 425 | 557 |
| Cash flows from investing activities | | |
| Purchase of tangible fixed assets | (412) | (60) |
| Sale of tangible fixed assets | 79 | 66 |
| Net cash from investing activities | (333) | 6 |
| Cash flows from financing activities | | |
| Repayment of finance leases | - | (76) |
| Interest paid | - | (55) |
| Net cash used in financing activities | - | (131) |
| Net increase in cash and cash equivalents | 92 | 432 |
| Cash and cash equivalents at beginning of year | 354 | (78) |
| Cash and cash equivalents at the end of year | 446 | 354 |
| Cash and cash equivalents at the end of year comprise: | | |
| Cash at bank and in hand | 446 | 366 |
| Bank overdrafts | - | (12) |
| | 446 | 354 |

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. General information

Bally UK Sales Limited's principal activities are that of selling footwear, clothing and accessories.

The company is a private company limited by shares and is incorporated in England. The address of its registered office and principal place of business is 6th Floor, 123 Victoria Street, London, SW1P 1GW.

The financial statements are presented in pound sterling (£), rounded to the nearest thousand.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

The company has net liabilities of £15,808,000 including an amount owed to group undertakings of £25,939,000. The financial statements have been prepared on a going concern basis which the directors believe to be appropriate. Bally International AG, the intermediate parent company of Bally UK Sales Limited, has provided the company with an undertaking that for at least twelve months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company to enable the company to continue in operational existence for the foreseeable future. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that the support will continue, although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

In assessing the ability of the parent company to provide such support, the directors have considered the financial position of Bally International AG and the financial support that JAB Luxury GmbH can provide in the twelve month period from the date of approval of these financial statements.

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Returns

It is the company's policy to sell goods to customers with a right of return. Accumulated experience is used to estimate and provide for returns at the time of sale.

2.4 Other operating income

Other operating income is recognised on an accruals basis in accordance with the substance of the relevant agreements, and recognised when all contractual conditions are met.

Rental income is recognised on an accruals basis in accordance with the terms of the lease agreement.

2.5 Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.5 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

| | |
|-------------------------------|--------------------------------|
| Leasehold property | - over the length of the lease |
| Computer and office equipment | - 25% straight line |
| Fixtures and fittings | - 3 - 10 years straight line |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the within 'other operating income' or 'other operating charges' as appropriate in the profit and loss account.

Assets under construction are not depreciated until they are brought into use.

Artwork is not depreciated and is valued at historical cost.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount. Any impairment loss is recognised within administrative expenses.

2.6 Operating leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the term of the lease.

2.7 Stocks

Stocks are stated at the lower of cost and net realisable value.

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.8 Financial instruments

Financial assets and financial liabilities are recognised when the company becomes party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Financial assets

Basic financial assets, including trade and other debtors, cash and bank balances and intercompany working capital balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest for a similar debt instrument. Financing transactions are those in which payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate.

Such assets are subsequently carried at amortised cost using the effective interest method, less any impairment.

Financial liabilities

Basic financial liabilities, including trade and other creditors, and intercompany working capital balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. Financing transactions are those in which payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Impairment of financial assets

Financial assets measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the profit and loss account.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between the asset's carrying amount and the best estimate of the amount the company would receive for the asset if it were to be sold at the reporting date.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

Derecognition of financial assets and financial liabilities

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.9 Foreign currency translation

Functional and presentational currency

The company's functional and presentational currency is Sterling.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated into the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'finance income or costs'. All other foreign exchange gains and losses are presented in the profit and loss account within 'operating profit'.

2.10 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

2.11 Finance costs

Finance costs are charged to the profit and loss account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.12 Pensions

Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the profit and loss account when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

Defined benefit pension plan

The company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the balance sheet date less the fair value of plan assets at the balance sheet date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a 'finance expense'.

2.13 Interest income

Interest income is recognised in the profit and loss account using the effective interest method.

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.14 Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the profit and loss account in the year that the company becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet.

2.15 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

Current tax is the amount of income tax payable in respect of taxable profit for the year or prior years.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expense in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date, and that are expected to apply to the reversal of the timing difference.

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Key judgements made by management in applying the entity's accounting policies

Impairment of tangible fixed assets

In preparing these financial statements, the directors have exercised judgement in determining whether there are indicators of impairment of the company's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset.

Key sources of estimation uncertainty

Retirement benefits

Accounting for a defined benefit pension scheme and the value of liabilities is dependent on significant assumptions, including an assessment of the discount rate, price inflation and key demographic figures including life expectancy and mortality rates. Details of these assumptions are given in note 21.

These accounting judgements are inherently complex and require a high level of management judgement and specialist input by an actuary in the calculation of the value of the liabilities.

4. Turnover

Turnover is attributable to the company's principal activity; the selling of footwear, clothing and accessories.

All turnover arose within the United Kingdom.

5. Other operating income

| | 31 December 2016 £000 | 11 months ended 31 December 2015 £000 |
|------------------------|--------------------------------|--|
| Other operating income | 7,648 | 7,303 |
| Commissions | 108 | 125 |
| Net rents receivable | 12 | 58 |
| Sundry income | 19 | 4 |
| | <u>7,787</u> | <u>7,490</u> |

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

6. Operating loss

The operating loss is stated after charging:

| | 31 December 2016 £000 | 11 months ended 31 December 2015 £000 |
|---|--------------------------------|--|
| Depreciation of tangible fixed assets | 1,457 | 1,477 |
| Depreciation of tangible fixed assets held under finance leases | - | 7 |
| Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements | 19 | 22 |
| Exchange differences | 390 | 24 |
| Operating lease rentals | 2,260 | 2,628 |

7. Employees

Staff costs, including directors' remuneration, were as follows:

| | 31 December 2016 £000 | 11 months ended 31 December 2015 £000 |
|---|--------------------------------|--|
| Wages and salaries | 5,759 | 5,730 |
| Social security costs | 705 | 760 |
| Cost of defined benefit pension scheme | 494 | 582 |
| Cost of defined contribution pension scheme | 266 | 301 |
| | 7,224 | 7,373 |

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

| | 31 December 2016 No. | 11 months ended 31 December 2015 No. |
|--------------------------|-------------------------------|---|
| Selling and distribution | 29 | 41 |
| Administration | 66 | 68 |
| | 95 | 109 |

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

8. Directors' remuneration

| | 31 December 2016 £000 | 11 months ended 31 December 2015 £000 |
|-----------------------|--------------------------------|--|
| Directors' emoluments | 301 | 320 |
| | <u>301</u> | <u>320</u> |

The highest paid director received remuneration of £301,000 (2015 -£320,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £1,000 (2015 -£NIL).

9. Interest receivable

| | 31 December 2016 £000 | 11 months ended 31 December 2015 £000 |
|--|--------------------------------|--|
| Expected return on pension scheme assets | 1,682 | 1,325 |
| | <u>1,682</u> | <u>1,325</u> |

10. Interest payable and similar charges

| | 31 December 2016 £000 | 11 months ended 31 December 2015 £000 |
|--|--------------------------------|--|
| Other interest payable | 1 | 3 |
| Finance leases and hire purchase contracts | - | 9 |
| Interest on pension scheme liabilities | 1,658 | 1,369 |
| | <u>1,659</u> | <u>1,381</u> |

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

11. Taxation

| | 31 December 2016 £000 | 11 months ended 31 December 2015 £000 |
|--|--------------------------------|--|
| Group taxation relief | - | (139) |
| Taxation on loss on ordinary activities | - | (139) |

Factors affecting tax charge for the period

The tax assessed for the year is lower than (2015 -higher than) the standard rate of corporation tax in the UK of 20% (2015 -20.18%). The differences are explained below:

| | 31 December 2016 £000 | 11 months ended 31 December 2015 £000 |
|--|--------------------------------|--|
| Loss on ordinary activities before tax | (4,491) | (2,787) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 -20.18%) | (898) | (562) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 18 | 11 |
| Capital allowances for year/period in excess of depreciation | 179 | 175 |
| Pension contributions net of other finance expense | (280) | (267) |
| Unrelieved tax losses carried forward | 981 | 643 |
| Group relief | - | (139) |
| Total tax charge for the year/period | - | (139) |

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

11. Taxation (continued)

Factors that may affect future tax charges

The company has unutilised tax losses of approximately £31,402,000 (2015: £23,465,000) carried forward. No deferred tax asset has been recognised in these financial statements because of the uncertainty of suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance (No. 2) Act 2015 on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017. A further reduction in the UK corporation tax rate to 17%, effective from 1 April 2020, was substantively enacted as part of the Finance (No. 2) Act 2016 on 6 September 2016. Deferred taxes at the balance sheet date have been measured using these enacted tax rates based on when the timing difference is expected to reverse and reflected in these financial statements.

12. Tangible fixed assets

| | Leasehold property and improve- ments £000 | Fixtures and fittings £000 | Computer equipment £000 | Other fixed assets £000 | Total £000 |
|--------------------------|--|----------------------------------|-------------------------------|-------------------------------|---------------|
| Cost or valuation | | | | | |
| At 1 January 2016 | 10,327 | 4,580 | 478 | 15 | 15,400 |
| Additions | 121 | 258 | 33 | - | 412 |
| Disposals | (288) | (255) | - | - | (543) |
| At 31 December 2016 | 10,160 | 4,583 | 511 | 15 | 15,269 |
| Depreciation | | | | | |
| At 1 January 2016 | 1,702 | 2,530 | 250 | - | 4,482 |
| Charge for the year | 1,004 | 379 | 74 | - | 1,457 |
| Disposals | (221) | (243) | - | - | (464) |
| At 31 December 2016 | 2,485 | 2,666 | 324 | - | 5,475 |
| Net book value | | | | | |
| At 31 December 2016 | 7,675 | 1,917 | 187 | 15 | 9,794 |
| At 31 December 2015 | 8,625 | 2,050 | 228 | 15 | 10,918 |

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

13. Stocks

| | 2016 £000 | 2015 £000 |
|-------------------------------------|--------------|--------------|
| Finished goods and goods for resale | 2,616 | 4,157 |
| | <u>2,616</u> | <u>4,157</u> |

Stock recognised in cost of sales during the year as an expense was £3,149,000 (2015 -£2,966,000).

14. Debtors

| | 2016 £000 | 2015 £000 |
|-------------------------------------|-------------------|-------------------|
| Due after more than one year | | |
| Other debtors | 58 | 58 |
| | <u> </u> | <u> </u> |
| Due within one year | | |
| Trade debtors | 162 | 180 |
| Amounts owed by group undertakings | 5 | 218 |
| Other debtors | 64 | 69 |
| Prepayments and accrued income | 774 | 1,002 |
| | <u>1,063</u> | <u>1,527</u> |

15. Creditors: Amounts falling due within one year

| | 2016 £000 | 2015 £000 |
|------------------------------------|---------------|---------------|
| Bank overdrafts | - | 12 |
| Trade creditors | 819 | 2,144 |
| Amounts owed to group undertakings | 25,939 | 20,786 |
| Taxation and social security | 397 | 505 |
| Accruals and deferred income | 717 | 1,277 |
| | <u>27,872</u> | <u>24,724</u> |

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

16. Creditors: Amounts falling due after more than one year

| | 2016 £000 | 2015 £000 |
|------------------------------|--------------|--------------|
| Accruals and deferred income | 465 | 569 |
| | <u>465</u> | <u>569</u> |

Of the deferred income, £52,000 (2015: £155,000) will reverse after five years.

17. Financial instruments

| | 2016 £000 | 2015 £000 |
|---|---------------|---------------|
| Financial assets | | |
| Financial assets that are debt instruments measured at amortised cost | 452 | 525 |
| | <u>452</u> | <u>525</u> |
| Financial liabilities | | |
| Financial liabilities measured at amortised cost | 27,161 | 23,446 |
| | <u>27,161</u> | <u>23,446</u> |

Financial assets measured at amortised cost include trade debtors, group debtors and other debtors.

Financial liabilities measured at amortised cost include bank overdrafts, trade creditors, group creditors, and other creditors.

18. Provisions

| | Dilapidation provision £000 |
|----------------------------|-----------------------------------|
| At 1 January 2016 | 42 |
| Charged to profit or loss | (18) |
| At 31 December 2016 | <u>24</u> |

Dilapidation provision

The balance relates to dilapidation provisions on the company's current leasehold properties which are likely to become payable at the end of the lease term.

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

19. Share capital

| | 2016 £000 | 2015 £000 |
|---|--------------|--------------|
| Shares classified as equity | | |
| Allotted, called up and fully paid | | |
| 400,000 Ordinary shares of £0.25 each | <u>100</u> | <u>100</u> |

20. Reserves

Capital redemption reserve

The capital redemption reserve was set aside following a loan waiver that Bally UK Sales Limited had against Bally Group (UK) Limited in the amount of £1,578,000 and against Bally International AG in the amount of £30million.

Profit and loss account

The profit and loss account includes all current and prior period retained profits and losses.

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

21. Pension commitments

The company participates in a defined benefit scheme operated by Bally Group (UK) Limited, under which contributions were paid by members and the company into a fund. This fund is separate from the company's finances and is administered by Trustees. This scheme was closed with effect from 1 February 2002.

A full actuarial valuation was carried out on 1 June 2013 by a qualified independent actuary and was updated to 31 December 2016.

The actual amount paid into the scheme in the period was £1,897,000 (December 2015: £1,868,000).

Reconciliation of present value of plan liabilities:

| | 2016 £000 | 2015 £000 |
|---|---------------|---------------|
| At the beginning of the year | 43,245 | 49,113 |
| Interest cost | 1,658 | 1,369 |
| Actuarial (gains)/losses due to financial assumptions changes | 8,404 | (5,476) |
| Benefits paid | (1,465) | (1,761) |
| At the end of the year | 51,842 | 43,245 |

Reconciliation of present value of plan assets:

| | 2016 £000 | 2015 £000 |
|--------------------------------------|---------------|---------------|
| At the beginning of the year | 43,169 | 46,912 |
| Expected return on assets | 1,682 | 1,325 |
| Actuarial gain/(loss) on plan assets | 5,687 | (4,593) |
| Contributions | 1,897 | 1,868 |
| Benefits paid | (1,465) | (1,761) |
| Administration expenses | (494) | (582) |
| At the end of the year | 50,476 | 43,169 |

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

21. Pension commitments (continued)

Composition of plan assets:

| | 2016 £000 | 2015 £000 |
|--------------------------|---------------|---------------|
| Equities | 20,434 | 15,972 |
| Bonds | 8,545 | 6,693 |
| Cash | 360 | 127 |
| Annuity policies | 21,137 | 20,377 |
| Total plan assets | 50,476 | 43,169 |

The amounts recognised in the balance sheet are as follows:

| | 2016 £000 | 2015 £000 |
|-------------------------------------|----------------|--------------|
| Fair value of plan assets | 50,476 | 43,169 |
| Present value of plan liabilities | (51,842) | (43,245) |
| Net pension scheme liability | (1,366) | (76) |

No deferred tax is recognised on the pension liability as it is not regarded as recoverable (see note 11).

The amounts recognised in profit or loss are as follows:

| | 2016 £000 | 2015 £000 |
|----------------------------------|--------------|--------------|
| Interest on scheme liabilities | (1,658) | (1,369) |
| Expected return on scheme assets | 1,682 | 1,325 |
| Administration expenses | (494) | (582) |
| Total | (470) | (626) |

Defined benefit costs recognised in the statement of other comprehensive income

| | 2016 £000 | 2015 £000 |
|---|----------------|--------------|
| Actual less expected return on assets | 5,687 | (4,593) |
| Experience gains | 1,366 | - |
| Actuarial gains/(losses) due to financial assumptions changes | (10,725) | 5,476 |
| Actuarial losses due to demographic assumptions changes | 955 | - |
| Statement of comprehensive income | (2,717) | 883 |

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

21. Pension commitments (continued)

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income was £(2,717,000) (2015 £883,000).

The company expects to contribute £1,380,000 to its defined benefit pension scheme in 2017.

Principal actuarial assumptions at the balance sheet date:

| | 2016 % | 2015 % |
|--------------------------|-----------|-----------|
| Discount rate | 2.65 | 3.9 |
| Future pension increases | 3.7 | 3.55 |
| Inflation assumption | 2.5 | 2.3 |

The mortality assumptions used the actuarial table SAPS S2.

Defined contribution scheme

There is a defined contribution scheme operated by the company. The assets are held separately from those of the company in an independently administered fund. The pension cost charged of £266,000 (December 2015: £403,000) for this scheme represents the contribution payable by Bally UK Sales Limited for the period.

22. Commitments under operating leases

At 31 December 2016 the company had future minimum lease payments under non-cancellable operating leases as follows:

| | 2016 £000 | 2015 £000 |
|--|--------------|---------------|
| Not later than 1 year | 1,607 | 1,627 |
| Later than 1 year and not later than 5 years | 6,428 | 6,428 |
| Later than 5 years | 510 | 2,117 |
| | <u>8,545</u> | <u>10,172</u> |

BALLY UK SALES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

23. Related party transactions

The company has taken advantage of the exemption contained in FRS 102 section 33 from disclosing transactions with entities which are a wholly owned part of the group.

Only the directors are considered to be key management personnel. Total remuneration in respect of the individuals is given in note 8.

24. Ultimate parent undertaking and controlling party

The immediate parent company and controlling party is Bally Group (UK) Limited, a company incorporated in England. Group financial statements are not prepared.

The ultimate parent company is JAB Holding, a company incorporated in the Netherlands. Group financial statements are not prepared.

The largest and smallest group in which the results of the company are consolidated is that headed by Bally International AG, incorporated in Switzerland. The consolidated financial statements of this group are available on written request to Bally International AG, Via Industria 1, 6987 Caslano, Switzerland.

The directors are not aware of any ultimate controlling party.