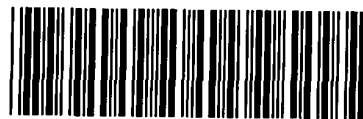


Paul Smith Limited

Annual report and financial statements
for the year ended 30 June 2017

Registered number: 1170719

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Annual report and financial statements for the year ended 30 June 2017

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Paul Smith Limited

Strategic report for the year ended 30 June 2017

The directors present their strategic report on Paul Smith Limited (the 'company') for the financial year ended 30 June 2017.

Review of the business and future developments.

Paul Smith is a global lifestyle brand designing men's, women's & children's clothing, accessories and shoes sold through e-commerce, retail, wholesale and licencing.

The directors consider the result for the year to be satisfactory following a period of challenge and transition. Turnover increased by 1% to £159,178,000 (2016: £157,512,000). Operating Profit before exceptional items decreased by 47% to £2,392,000 (2016: £4,556,000) with exceptional items of £1,325,000 (2016: exceptional income £1,724,000). Operating Profit after exceptional items of £1,067,000 (£6,280,000) decreased by 83% on the previous year

Following a year of restructuring and refreshing our business and products, we are confident that we are beginning to see the benefits of the significant changes and investments made. Our new streamlined branding, Paul Smith and PS Paul Smith, continues to make good progress and is now performing well across all channels.

Despite continued investment in new shops and our business systems, we are containing our overheads and stabilising operating profits.

Retail sales for the year ended 30 June 2017 increased by 9% overall and 3% on a like-for-like basis, reflecting a mixed performance across our core markets. Retail is now our biggest channel. The company continued its strategy of shop openings in key markets with a new shop in Birmingham. New shops planned for the coming year include Manchester.

Our Retail sales performance has continued to improve since the year end. Season to date Retail sales for the Autumn Winter 2017 season were 16% up overall on the previous Autumn Winter season or 10% on a like-for-like basis.

E-commerce sales continue to increase, growing by 15% during the year and we will continue to upgrade our ecommerce and omni-channel capability and invest in promoting the site to maintain growth. Direct E-commerce sales now represent 26% of our retail sales (2016: 24%).

Wholesale sales to franchise partners, leading department stores and select multi-brand shops and online retailers throughout the world, decreased by 10% to £79,905,000 (2016: £88,711,000). We experienced weak demand in our core markets of UK, France, Russia and some significant reductions in Asia. Markets where we saw an improvement included Germany, Italy and Greece.

Since the year end however, forward orders for Spring Summer 2018 were up 5% up on the previous Spring Summer season reflecting further positive reactions to our collections.

We operate both territorial and product licences. Our territorial licences cover mainly Japan which are operated through licensed retail and wholesale operations. Our product licences cover fragrance, eyewear, rugs and other homeware and childrenswear.

Licensing income increased overall mainly due to growth in Japanese income following our new 10 year license with our master licensee in Japan, signed the previous year. European license income remained stable. No other significant new licenses were entered into during the year. We have continued to reduce our non-exceptional overheads and sought to become more agile in response to the market conditions and uncertainties brought about as a result of the Brexit vote and other external factors affecting our business

Paul Smith Limited

Strategic report for the year ended 30 June 2017 (continued)

Despite our continued investments in shops, ecommerce and IT systems, we have managed to contain our overheads for the second year running.

We are mid-way through our project to deliver our new ERP and warehouse management systems with several modules of the new systems having gone live since the year end. Our new systems will help us enhance the efficiency of the business and support our long-term growth strategy. Since the year end we have successfully upgraded our Ecommerce platform. The company will continue to follow a strategy of investing in IT and digital infrastructure in order to drive customer insight and service.

We continued to re-appraise and restructure our business. As a result, we have recognised within exceptional costs £736,000 (2016: £1,074,000) which represents the costs of restructuring and reorganisation.

We continue to refresh our thinking, approach, products and structure to ensure the long term success of the company. A strong foundation for future growth has been built as a result of the significant investment made in design and product development as well as the systems and omni-channel infrastructure. Based on current levels of trade we expect a more positive outcome for the coming year.

Principal Risks and Uncertainties

The directors consider the principal business risks of the business to be the global, economic and financial factors affecting the demand from our customers. We recognise the intense competition in our markets and the challenge to remain relevant, desirable and competitive. There are significant risks in establishing new shops and expanding into new markets, and the ability of our people and suppliers to provide consistent quality, supply and pricing. The Board has responded to these risks with the significant activities and changes implemented in recent years and will continue to monitor and react to changes affecting this strategy.

The principal financial risks are considered to be foreign exchange fluctuations and credit risk. The Board reviews and agrees policies for managing these risks on a regular basis.

Where appropriate the company uses forward foreign exchange contracts to mitigate exchange risks. The most significant exposure to foreign exchange fluctuations relate to sales receipts and purchases in foreign currencies. The company's policy is to hedge substantially all the risks of such currency fluctuations by using forward contracts, after taking into account forecast foreign currency cash flows. No transactions of a speculative nature are entered into.

Credit risk is minimised by the implementation of policies that require appropriate credit checks on potential customers prior to sales being made. The amount of exposure to any individual customer is subject to a limit, which is reassessed seasonally by management of the company. Price risk, interest rate risk and liquidity risk are not considered to be significant risks to the business.

Key Performance Indicators

We analyse, monitor & react to our business performance using key performance indicators relevant to each of our distribution channels. Performance measures for our retail business include total & like-for like sales, footfall & gross retail margins. Wholesale performance measures include total sales & gross wholesale margins, & licence income is measured through year on year revenue growth.

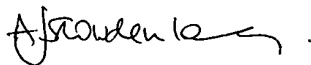
Paul Smith Limited

Strategic report for the year ended 30 June 2017 (continued)

Employees

The company provides employees with information on trading & other key developments & continued communication ensures that the employees' views are taken into account when decisions are made which are likely to affect their interests. The company has continued to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. The company's policy includes the provision of suitable training & opportunities to promote the career development of people with disabilities, & where practicable, the continued employment of those who may become disabled during their employment.

On behalf of the Board



A J S Long

Director

19 October 2017

Paul Smith Limited

Directors' report for the year ended 30 June 2017

The directors present their Directors' report with the audited financial statements of the Company for the financial year ended 30 June 2017.

Results and dividends

The Company's loss after tax for the financial year was £1,373,000 (2016: profit of £4,838,000). Dividends of £6,240,000 have been paid in the year (2016: £24,382,000).

Future developments

The future developments are detailed in the Strategic report on page 1.

Branches outside the UK

The Company includes branches outside the UK in France, Italy and Japan.

Principal risks and uncertainties

Details of the principal risks and uncertainties of the Company are disclosed on page 2 of the Strategic report.

Financial risk management

Details of the financial risks of the Company are disclosed on page 2 of the Strategic report.

Political donations

During the year the Company made no donations (2016: £nil) to any political party.

Directors

The directors who served during the year and up to the date of signing the financial statements of Paul Smith Limited were as follows:

P B Smith
M Morofuji
A J S Long
G A Chilton

Details of related party transactions involving directors of the group are given in note 23 to the financial statements.

Indemnity provision

No indemnity provisions were provided to directors during the year (2016: none).

Employees

Details of the Company's policy in relation to employees can be found on page 3 of the Strategic report.

Paul Smith Limited

Directors' report for the year ended 30 June 2017 (continued)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and 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 (FRS 102)".

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 accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Statement of disclosure of information to auditors

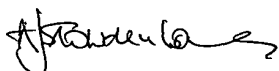
Each of the persons who is a director at the date of approval of this report confirms that:

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the annual general meeting.

On behalf of the Board



A J S Long
Director

19 October 2017

Paul Smith Limited

Independent auditors' report to the members of Paul Smith Limited

Report on the audit of the financial statements

Opinion

In our opinion, Paul Smith Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2017; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report and financial statements other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Paul Smith Limited

Independent auditors' report to the members of Paul Smith Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



David Teager (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

19 October 2017

Paul Smith Limited

Statement of comprehensive income for the year ended 30 June 2017

	Note	2017 £'000	2016 £'000
Turnover	4	159,178	157,512
Cost of sales		(74,754)	(71,617)
Gross profit		84,424	85,895
Operating expenses	5	(83,357)	(79,615)
Operating profit		1,067	6,280
Analysed as:			
Operating profit before exceptional items		2,392	4,556
Exceptional items	5	(1,325)	1,724
Operating profit	5	1,067	6,280
Interest receivable and similar income	6	169	114
Interest payable and similar charges	7	(678)	(368)
Profit on ordinary activities before taxation		558	6,026
Tax on profit on ordinary activities	10	(1,931)	(1,188)
(Loss)/profit for the financial year		(1,373)	4,838
Other comprehensive income / (expense):			
Cash flow hedges			
-Changes in value of hedged instrument		4,160	(9,258)
-Reclassifications to revenue within the profit and loss		787	1,246
-Reclassifications to cost of sales within the profit and loss		(1,906)	(2,056)
Total tax on components of other comprehensive income		(583)	1,882
Other comprehensive income/(expense) for the year, net of tax		2,458	(8,186)
Total comprehensive income/(expense) for the year		1,085	(3,348)

All amounts relate to continuing operations.

Paul Smith Limited

Balance sheet as at 30 June 2017

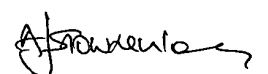
	Note	2017	2016
		£'000	£'000
Fixed assets			
Intangible assets	12	5,486	3,722
Tangible assets	13	67,452	48,957
Investments	14	3,383	3,383
		76,321	56,062
Current assets			
Stocks	15	40,471	40,505
Current asset investments	16	99	6,297
Debtors	17	81,588	90,478
Cash at bank and in hand		22,408	19,770
		144,566	157,050
Creditors: amounts falling due within one year	18	(84,051)	(78,845)
Net current assets		60,515	78,205
Total assets less current liabilities		136,836	134,267
Creditors: amounts falling due after one year	18	(14,945)	(7,221)
Net assets		121,891	127,046
Capital and reserves			
Share capital	20	48	48
Capital redemption reserve		3	3
Cashflow hedge reserve	22	(2,949)	(5,407)
Retained earnings		124,789	132,402
Total equity		121,891	127,046

The financial statements on pages 8 to 35 were approved by the board of directors on 9 October 2017 and were signed on its behalf by:

P B Smith
Director



A J S Long
Director



Registered Company number: 1170719

Paul Smith Limited

Statement of changes in equity for the year ended 30 June 2017

	Note	Share capital £'000	Capital redemption reserve £'000	Cashflow hedge reserve £'000	Retained earnings £'000	Total Equity £'000
Balance as at 1 July 2015		48	3	2,779	151,946	154,776
Profit for the financial year		-	-	-	4,838	4,838
Other comprehensive expense for the financial year		-	-	(8,186)	-	(8,186)
Total comprehensive expense for the financial year		-	-	(8,186)	4,838	(3,348)
Dividends		-	-	-	(24,382)	(24,382)
Total transactions with owners, recognised directly in equity		-	-	-	(24,382)	(24,382)
Balance as at 30 June 2016	20	48	3	(5,407)	132,402	127,046
Balance as at 1 July 2016		48	3	(5,407)	132,402	127,046
Loss for the financial year		-	-	-	(1,373)	(1,373)
Other comprehensive income for the financial year		-	-	2,458	-	2,458
Total comprehensive income for the financial year		-	-	2,458	(1,373)	1,085
Dividends		-	-	-	(6,240)	(6,240)
Total transactions with owners, recognised directly in equity		-	-	-	(6,240)	(6,240)
Balance as at 30 June 2017	20	48	3	(2,949)	124,789	121,891

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017

1. General information

Paul Smith Limited is a private company limited by shares and it is incorporated and registered in England. The address of its registered office is The Poplars, Lenton Lane, Nottingham, NG7 2PW.

Paul Smith designs men's, women's and children's clothing, related accessories and other items that are sold through three main distribution channels: retail through own shops and e-commerce; wholesale; and licensing, which includes territorial and product licences.

2. Statement of compliance

The individual financial statements of Paul Smith Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain assets and liabilities measured at fair value through profit and loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3(t).

b) Going concern

The company meets its day to day working capital requirements through its available cash reserves. The current economic conditions continue to create uncertainty over the level of demand for the company's products. The company forecasts and projections, taking account of reasonably possibly changes in trading performance, show that the company should be able to operate within the level of its current cash reserves. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

c) Exemption for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions, have been complied with, including no objection to the use of exemptions by the Company's shareholders. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. The Company is a qualifying entity as its results are consolidated into the financial statements of Paul Smith Group Holdings Limited which are publicly available.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

3. Summary of significant accounting policies (continued)

c) Exemption for qualifying entities under FRS 102 (continued)

As a qualifying entity, the Company has taken advantage of the following exemptions:

- i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
- ii) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
- iii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
- iv) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

d) Basis of consolidation

The Company is a wholly owned subsidiary of Paul Smith (Holdings) Limited, and is included in the consolidated financial statements of Paul Smith Group Holdings Limited, which are publicly available. Consequently, the Company has taken advantage of the exception from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

These financial statements are the Company's separate financial statements.

e) Foreign currency

- i) Functional and presentation currency

The Company's functional and presentation currency is the pound sterling.

- ii) 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 using 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 resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses are presented in the statement of comprehensive income within operating expenses.

f) Turnover

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied, net of returns, discounts and rebates allowed by the company and value added taxes.

The company bases its estimate of returns on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

3. Summary of significant accounting policies (continued)

f) Turnover (continued)

The company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to each of the company's sales channels have been met, as described below.

(i) Sale of goods – wholesale

The company manufactures and sells men's, women's and children's clothing and related accessories within the wholesale market. Sales of goods are recognised on delivery to the wholesaler, when the wholesaler has full discretion over the channel and price to sell the product and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the product. Delivery occurs when the goods have been shipped to the location specified by the wholesaler, the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the company has objective evidence that all criteria for acceptance have been satisfied.

Goods sold to wholesalers are often sold with volume rebates and also with the provision for the wholesale customer to return faulty goods. Sales are measured at the prices specified in the sales contract, net of estimated volume rebates and returns. Volume rebates are assessed based on anticipated annual purchases. Accumulated experience is used to estimate and provide for discounts and returns.

(ii) Sale of goods – retail and retail ecommerce

The company operates retail shops for the sale of men's, women's and children's clothing and related accessories. Sales of goods are recognised on sale to the customer, which is considered the point of delivery. Retail sales are usually by cash, credit or payment card.

Sales are made to retail customers with a right to return within 28 days, subject to certain conditions regarding the usage. Accumulated experience is used to estimate and provide for such returns at the time of sale.

The company sells goods via its website for delivery to the customer. Revenue is recognised when the risk and rewards of the inventory is passed to the customer. For deliveries to the customer this is the point of acceptance of the goods by the customer. Transactions are settled by credit or payment card.

Provision is made for credit notes based on the expected level of returns which is based on the historical experience of returns.

(iii) Licencing income

The company earns licence income from other manufacturers in relation to the sale of products designed by the company. Licence income is recognised on an accruals basis in accordance with the substance of the relevant agreement.

(iv) Other

Other income is recognised when the right to receive payment is established.

g) Exceptional items

The Company classifies charges or credits that have a material impact on the Company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Company.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

3. Summary of significant accounting policies (continued)

h) Employee benefits

The Company provides a range of benefits to employees, including paid holiday arrangements and defined contribution pension plans.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits are recognised as an expense in the period in which the service is received.

(ii) Defined contribution pension plans

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 recognized as an expense when they are due. Amounts not paid are shown in accruals in the statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

i) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

(ii) Deferred tax

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 expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

j) Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives.

Intangible fixed assets represent software costs. Software costs are amortised over their estimated useful lives of 5 years. Amortisation is charged to operating expenses within the statement of comprehensive income.

Costs associated with maintaining computer software are recognised as an expense as incurred.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

3. Summary of significant accounting policies (continued)

j) Intangible assets (continued)

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

k) Tangible assets

Tangible assets are stated at historic purchase cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and the cost attributable to bringing the asset to its working condition for its intended use.

Other than freehold land, tangible assets are depreciated over their estimated useful lives at the following rates:

Freehold property	- 2% to 4% per annum
Leasehold property	- over period of the lease
Leasehold improvements	- over period of the lease
Fixtures and fittings	- 10% to 20% per annum on costs
Motor vehicles	- 25% per annum on cost
Computers	- 20% to 33% per annum on cost

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in operating expenses.

Investment properties owned by the company are held to generate rental income or long term capital appreciation, or both. They are initially recognised at cost which includes purchase cost and any directly attributable expenditure. Where the fair value can be measured reliably the properties are carried at fair value, with changes in fair value being recognised within administrative expenses in the income statement.

Investment properties are assessed annually to ensure they are held at fair value. The company obtains a RICS valuation each 3 years, with market valuations obtained for the intervening periods to ensure the investment properties are held at fair value at each reporting period. Changes in the fair value of the investment property are recognised within administrative expenses in the income statement. The valuations for each year have been performed by an external and independent valuer.

l) Leased assets

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

(i) Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

3. Summary of significant accounting policies (continued)

l) Leased assets (continued)

(i) Finance leased assets (continued)

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

(ii) Operating leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Operating lease costs are charged to the statement of comprehensive income in equal amounts over the period of the lease.

(iii) Lease incentives

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of present value of minimum lease payments.

Incentives received to enter into an operating lease are credited to the income statement, to reduce the lease expense, on a straight-line basis over the period of the lease.

The Company has taken the transition exemption under paragraph 35.10(p) of FRS 102 to continue to recognise the existing lease incentives at the transition date on the same basis as previous UK GAAP. Under previous UK GAAP operating lease incentives, including rent free periods and fit-out contributions, were spread over the shorter of the lease period or the period to when the rental was set to a fair market rent.

m) Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the income statement.

n) Fixed assets investments

Investment in subsidiary company is held at cost less accumulated impairment losses.

o) Stocks

Stocks are valued at the lower of historical cost and estimated selling price less costs to complete and sell. Stocks are recognised as an expense in the period in which the related revenue is recognised.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

3. Summary of significant accounting policies (continued)

o) Stocks (continued)

Cost is determined on the first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the inventory to its present location and condition. The cost of manufactured finished goods and work in progress includes design costs, raw materials, direct labour and other direct costs and related production overheads (based on normal operating capacity).

At the end of each reporting period stocks are assessed for impairment. If an item of stock is impaired, the identified stock is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the statement of comprehensive income. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the statement of comprehensive income.

p) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Any accounts which cannot be considered cash and cash equivalents due to the timeframe required to access the funds are included within current asset investments.

q) Financial instruments

The company has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables and cash and bank 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.

Such assets are subsequently carried at amortised cost using the effective interest method where applicable.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

If there is 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 the statement of comprehensive income.

Other financial assets are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in statement of comprehensive income.

Financial assets are derecognised when (i) the contractual rights to the cash flows from the asset expire or are settled, or (ii) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (iii) 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.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

3. Summary of significant accounting policies (continued)

q) Financial instruments (continued)

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables and loans from fellow group companies 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 receipts discounted at a market rate of interest.

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

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, which include forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the statement of comprehensive income, unless they are included in a hedging arrangement.

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

(ii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the financial statements when there is a legally 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.

iv) Hedging arrangements

The company applies hedge accounting in respect of forward foreign exchange contracts held to manage receipt of licence income denominated in foreign currencies and future cash outflow exposures denominated in foreign currencies. Changes in fair values of derivatives designated as cash flow hedges and which are effective, are recognised directly in equity. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in fair value of the hedged item since inception of the hedge) is recognised in the statement of comprehensive income.

The gain or loss recognised in other comprehensive income is reclassified to the income statement when the hedge relationship ends. Hedge accounting is discontinued when the hedging instruments expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

r) Dividends

Final dividends are recognised when approved by the shareholders. Interim dividends are recognised when paid. These amounts are recognised in the statement of changes in equity.

s) Related party transaction

The Company has taken advantage of the exemption, as provided by paragraph 33.1A of FRS 102 and does not disclose transactions with members of the same group that are wholly owned. The Company discloses transactions with related parties which are not wholly owned with the same group.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

3. Summary of significant accounting policies (continued)

t) Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

- Useful economic lives of tangible and intangible assets

The annual depreciation / amortisation charge for tangible / intangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 12 & 13 for the carrying amount of the tangible and intangible assets and note 3(k) for the useful economic lives for each class of assets.

- Inventory provision

The company designs, manufactures and sells men's, women's and children's clothing and other accessories subject to changing fashion trends. As a result it is necessary to consider the recoverability of the costs of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 15 for the net carrying amount of the inventory and associated provision.

- Investment property valuation

The company uses the valuations performed by an external valuer, as the basis for the fair value of its investment property. The valuation of the company's property is inherently subjective due to, among other factors, the individual nature of the property, its location and the expected future rental income. As a result, the valuations the company places on its property are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market. The external valuers make a number of assumptions in forming their opinion on the valuation of our investment property. However, if any assumptions made by the external values prove to be incorrect, this may mean that the value of the company's property differs from the valuation reported in the financial statements, which could have a material effect on the company's financial position.

- Impairment of non-financial assets and intercompany debtors

On an annual basis the company assesses assets not carried at fair value to determine whether there is an indication that the asset may be impaired. This assessment, which involves a degree of judgement and assumptions about future prospects, is performed for investments on the smallest identifiable group of assets or CGU basis. The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Where the recoverable amount is assessed to be lower than the carrying amount an impairment loss is recognised in the income statement.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

4. Turnover

By Geographical Location

	2017 £'000	2016 £'000
United Kingdom	65,887	65,996
Rest of Europe	42,885	43,420
Rest of the world	50,406	48,096
	159,178	157,512

The analysis of turnover by geographical area is on the basis of destination.

By Category

	2017 £'000	2016 £'000
Retail	56,474	52,025
Wholesale	79,905	88,711
Licensing	22,164	15,394
Other	635	1,382
	159,178	157,512

Turnover was principally derived from the sale of men's and women's clothing and accessories, and from licensing income.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

5. Operating profit

	2017	Represented 2016
	£'000	£'000
Operating profit is stated after charging / (crediting):		
Audit fees payable to the company's auditors	65	65
Depreciation – owned assets	4,381	4,694
Depreciation – assets held under finance lease	-	91
Amortisation of intangible assets	190	944
Impairment of tangible assets	72	535
Reversal of intercompany debtor impairment	-	(3,333)
Restructuring and reorganisation costs	736	1,074
Loss/(gain) on derivative financial instruments	191	(204)
(Profit)/loss on disposal of fixed assets	(628)	79
Impairment of trade receivables	56	216
Impairment of inventories	(865)	876
Inventory recognised as an expense	73,807	69,976
Operating lease charges	9,361	8,620
(Increase)/decrease in fair value of investment property	(1,060)	1,970
Foreign exchange gains	(2,048)	(11,072)
Operating expenses are analysed as:		
Employee costs	33,702	34,008
Operational costs	28,222	31,879
Other administrative expenses	21,433	13,728
Total operating expenses	83,357	79,615

In accordance with SI 2008/489 the company has not disclosed the fees payable to the company's auditors for 'other services' as this information is included in the consolidated financial statements of Paul Smith Group Holdings Limited.

Net operating expenses are largely administrative in nature as there are relatively small distribution costs. Further analysis of our expenses has been provided in the above, which the directors consider to be reflective of the nature of the business.

Inventory recognised as an expense in the prior year has been represented to better represent the elements which form the cost of inventory.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

5. Operating profit (continued)

Exceptional items charged to operating profit are:

	2017 £'000	2016 £'000
Restructuring and reorganisation costs	736	1,074
Reversal of intercompany debtor impairment	-	(3,333)
Impairment of tangible assets	72	535
Parallel IT running costs	517	-
	1,325	(1,724)

Exceptional costs of £1,325,000 (2016: net credit of £1,724,000) include £736,000 (2016: £1,074,000) of costs of restructuring and reorganisation resulting from our reorganisation of design teams, products and collections. £517,000 was incurred in respect of parallel running costs of our old and new ERP systems. The remaining exceptional costs relate to the impairment of tangible assets as a result of the impairment reviews performed and the reversal of impairment of intercompany debt. Where a store is currently loss making and is unlikely to generate additional surplus funds a write down of the associated fixed assets has been made.

6. Interest receivable and similar income

	2017 £'000	2016 £'000
Bank interest receivable	45	114
Group interest receivable	124	-
Total interest receivable and similar income	169	114

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

7. Interest payable and similar charges

	2017 £'000	2016 £'000
Bank interest payable	137	9
Group interest payable	541	352
Other interest	-	7
Total interest payable and similar charges	678	368

8. Employee information

The aggregate staff costs were as follows:

	2017 £'000	2016 £'000
Wages and salaries	29,601	29,847
Social security costs	3,445	3,470
Other pension costs	656	691
	33,702	34,008

Aggregate staff costs are presented in the income statement as follows:

	2017 £'000	2016 £'000
Operating expenses before exceptional items	32,990	33,018
Exceptional items	712	990
	33,702	34,008

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

8. Employee information (continued)

The monthly average number of full time employees, including directors on service contracts, during the year was as follows:

By Activity	2017 Number	2016 Number
Office and administration	268	292
Design	105	108
Production	40	38
Sales	354	344
Warehouse	157	147
	924	929

Other pension costs include pension contributions made by the Company to money purchase pension schemes. Pension benefits will be dependent upon the value of the fund upon the retirement of employees. There were outstanding contributions of £106,000 at the balance sheet date (2016: £48,000).

9. Directors' remuneration

	2017 £'000	2016 £'000
Aggregate remuneration	997	1,198

The number of directors who were members of money purchase pension schemes during the year was 3 (2016: 4). Aggregate emoluments include pension costs of £5,000 (2016: £30,000).

The number of directors, to whom benefits are accruing under the Employee-Financed Retirement Scheme ("EFRBS") is 1 (2016: 1). Contributions were paid during the year of £nil (2016: £nil). An amount of £499,000 is included in accruals (2016: £499,000) relating to one director which becomes payable by the company on receiving contributions from the fund.

During the year compensation of £nil (2016: £250,000) was paid for loss of office.

Highest paid director:	2017 £'000	2016 £'000
Remuneration in respect of qualifying services	475	354

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

10. Tax on profit

(a) Tax expense included in profit or loss

	2017 £'000	2016 £'000
Current Tax		
United Kingdom		
UK corporation tax on the profit for the year	886	1,245
Adjustments in respect of prior years	880	-
Double taxation relief	-	(15)
	1,766	1,230
Foreign Tax		
Corporation taxes	11	75
Adjustments in respect of prior years	-	(149)
Total current tax	1,777	1,156
Deferred tax		
Origination and reversal of timing differences		
- Origination and reversal of timing differences	95	(176)
- Adjustment in respect of prior periods	(20)	25
- Impact of change in rate	79	183
Total deferred tax (note 19)	154	32
Tax on profit	1,931	1,188

(b) Tax (expense)/income included in other comprehensive income

	2017 £'000	2016 £'000
Deferred tax		
- Origination and reversal of timing differences	(583)	1,882
Total tax (expense)/income included in other comprehensive income	(583)	1,882

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

10. Tax on profit (continued)

(c) Reconciliation of tax charge

The UK corporation tax assessed for the year is different (2016: different) to the standard rate of corporation tax in the UK of 19.75% (2016: 20%). The differences are explained below:

	2017 £'000	2016 £'000
Profit before tax	558	6,026
Profit multiplied by the standard rate of corporation tax in the UK of 19.75% (2016: 20%)	110	1,205
Effect of:		
Expenses not deductible for tax purposes	960	548
Group relief not paid for	(104)	(683)
Chargeable gains	17	-
Impact of overseas tax rates	9	59
Remeasurement of deferred tax – change in UK tax rate	79	183
Adjustments in respect of prior years	860	(124)
Tax charge for the year	1,931	1,188

(d) Tax rate changes

Deferred tax balances at 30 June 2016 have been calculated using a rate of 17% (2016: 18%) as this is the enacted rate for the period over which the deferred tax balances are forecast to be utilised.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate of corporation tax to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

11. Dividends

	2017 £'000	2016 £'000
Interim dividend paid in the year of £130.16 per share (2016: £508.59 per share)	6,240	24,382

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

12. Intangible assets

	Computer Software £'000	Total £'000
Cost or valuation		
At 1 July 2016	4,931	4,931
Additions	1,954	1,954
Disposals	-	-
At 30 June 2017	6,885	6,885
Accumulated amortisation		
At 1 July 2016	1,209	1,209
Charge for year	190	190
Impairment	-	-
Disposals	-	-
At 30 June 2017	1,399	1,399
Net book values		
At 30 June 2017	5,486	5,486
At 30 June 2016	3,722	3,722

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

13. Tangible assets

	Investment property	Freehold property	Leasehold property	Leasehold improvements	Fixtures and fittings	Motor vehicles	Computers	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation								
At 1 July 2016	13,190	28,033	1,412	14,305	16,329	347	19,139	92,755
Additions	3,249	16,432	112	1,823	589	13	735	22,953
Reclassification	-	2,008	-	(2,021)	13	-	-	-
Disposals	-	(1,177)	-	-	(11)	(24)	-	(1,212)
Movement in fair value	1,060	-	-	-	-	-	-	1,060
At 30 June 2017	17,499	45,296	1,524	14,107	16,920	336	19,874	115,556
Accumulated								
At 1 July 2016	-	2,586	1,265	9,390	13,533	321	16,703	43,798
Charge for year	-	607	29	1,172	1,134	15	1,424	4,381
Reclassification	-	814	-	(819)	5	-	-	-
Impairment	-	-	10	53	9	-	-	72
Disposals	-	(120)	-	-	(10)	(17)	-	(147)
At 30 June 2017	-	3,887	1,304	9,796	14,671	319	18,127	48,104
Net book value								
At 30 June 2017	17,499	41,409	220	4,311	2,249	17	1,747	67,452
At 30 June 2016	13,190	25,447	147	4,915	2,796	26	2,436	48,957

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

13. Tangible assets (continued)

Included within freehold property above is land with a net book value of £10,216,000 (2016: £10,216,000).

If the investment property had not been included at fair value it would have been included at historical cost as follows:

	2017	2016
	£'000	£'000
Cost	16,317	13,068
Accumulated depreciation	(1,110)	(926)
Net book value	15,207	12,142

14. Fixed asset investments

	2017 £'000
Cost	
At 1 July 2016 and 30 June 2017	3,383
Net book value	
At 30 June 2017	3,383
At 1 July 2016	3,383

The directors believe that the carrying value of the investments is supported by their underlying net assets. The Company has the following investments.

Paul Smith France SAS

The Company is incorporated in France and its registered office is at 70 Rue des Archives, 75003 Paris, France. The share capital consists of 5,036,750 fully repaid €1 shares. The Company operates retail outlets selling goods produced by Paul Smith Limited. The Company is 0.7% owned by Paul Smith (Holdings) Limited and 99.3% owned by Paul Smith Limited.

Paul Smith (Asia Pacific) Limited

The Company is incorporated in Hong Kong and its registered office is at 21/F Tai Yau Building, 181 Johnston Road, Wanchai, Hong Kong. The share capital consists of 200,000 fully paid ordinary shares of 1 HK\$ each. The Company operates a production office in Hong Kong. The Company is wholly owned by Paul Smith Limited.

Paul Smith Belgium SPRL

The investment represents a 0.01% shareholding in Paul Smith Belgium SPRL, a Company incorporated in Belgium and its registered office is at Kelderstraat 2-3 2000 Antwerpen, Belgium. The Company operates a showroom and retail outlet within Belgium.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

15. Stocks

	2017 £'000	2016 £'000
Raw materials and WIP	8,025	6,243
Finished goods and goods for resale	32,446	34,262
	40,471	40,505

The difference between the purchase price or production cost of stock and the replacement cost is not material.

Inventories are stated after provisions for impairments of £6,539,000 (2016: £7,404,000).

16. Current asset investments

Current asset investments represent cash of £99,000 held in deposit accounts with withdrawal terms (2016: £6,297,000).

17. Debtors

	2017 £'000	2016 £'000
Trade debtors	11,442	11,790
Amounts owed by group undertakings	38,544	43,621
Corporation tax	26	547
Other debtors	2,384	2,393
Derivative financial instruments	153	1,572
Deferred taxation (see note 19)	2,099	2,836
Prepayments and accrued income	26,940	27,719
	81,588	90,478

Interest is charged on some amounts owed by group companies at a rate between nil and UK base plus 1.5%. There is no fixed repayment date on the intercompany debt, which is unsecured and repayable on demand.

Trade debtors are stated after provisions for impairments of £161,000 (2016: £179,000).

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

18. Creditors

	2017	2016
	£'000	£'000
Amounts falling due within one year:		
Bank loans and overdrafts (see below)	2,057	-
Trade creditors	15,686	13,603
Amounts owed to group undertakings	57,617	56,428
Other creditors	1,580	1,555
Taxation and social security	2,476	1,895
Derivative financial instruments	272	740
Accruals and deferred income	4,363	4,624
	84,051	78,845

Amounts falling due after one year:

Bank loans and overdrafts (see below)	11,664	-
Derivative financial instruments	3,281	7,221
	14,945	7,221

Amounts owed to group companies are non-interest bearing. There is no fixed repayment date on the intercompany debt, which is considered unsecured and repayable on demand.

Bank loans of £11,326,000 and £2,395,000 are repayable in equal monthly instalments over 7 years with £10,602,000 due within one to five years and £3,119,000 in more than five years. They bear interest at a fixed rate of 1.55% and 1.3% respectively and are secured by the property 70 Rue des Archives.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

19. Deferred taxation

The deferred tax asset is analysed as follows:

	£'000
Balance at 1 July 2015	986
Amount charged to income statement	(32)
Amount credited to statement of comprehensive income (note 10)	1,882
Balance as at 1 July 2016	2,836
Amount charged to the income statement	(154)
Amount charged to statement of comprehensive income (note 10)	(583)
Balance at 30 June 2017	2,099

The deferred tax asset relates to the following:

	2017 £'000	2016 £'000
Accelerated capital allowances and other timing differences	746	874
Hedged derivative fair values	604	1,187
Other timing differences	749	775
	2,099	2,836

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

20. Share capital and other reserves

	2017	2016
	£'000	£'000
Allotted, issued and fully paid		
47,940 ordinary shares of £1 each	48	48

There is a single class of ordinary shares. There are no restrictions on the distribution of capital and the repayment of capital.

Capital redemption reserve

The Capital redemption reserve represents a transfer from retained earnings to maintain the capital of the Company on the redemption of shares.

Retained earnings

The retained earnings account represents the accumulated profits, losses and distributions of the company. These retained earnings include the revaluation of investment properties which is not distributable, this has been disclosed in note 13.

21. Operating lease commitments

The Company had the following future minimum lease payments under non-cancellable operating leases falling due in each of the following periods:

	2017	2016
Payment Due	£'000	£'000
Not later than one year	8,521	8,671
Later than one year and not later than five years	21,572	25,836
Later than five years	6,875	6,771
	36,968	41,278

The Company has no other off-balance sheet arrangements.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

22. Financial instruments

The company has the following financial instruments:

	Note	2017 £'000	2016 £'000
Financial assets at fair value through profit or loss			
- Derivative financial instruments	17	153	1,572
Financial assets that are debt instruments measured at amortised cost			
- Trade debtors	17	11,442	11,790
- Other debtors	17	2,384	2,393
- Investment in short term deposits	16	99	6,297
		13,925	20,480
Financial liabilities measured at fair value through profit or loss			
- Derivative financial instruments	18	3,553	7,961
Financial liabilities measured at amortised cost			
- Bank loans	18	13,721	-
- Trade creditors	18	15,686	13,603
- Other creditors	18	1,580	1,555
- Accruals	18	4,363	4,624
		35,350	19,782

Derivative financial instruments – forward contracts

The company enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency payables. At 30 June 2017, the outstanding contracts all mature within 76 months (2016: 88 months) of the year end. The company is committed to sell Japanese ¥6,250,000,000 and pay a fixed sterling amount (2016: Japanese ¥7,420,000,000 and €9,000,000).

The forward currency contracts are measured at fair value which is the quoted market price in an active market.

The cashflow hedge reserve of £2,949,000 (2016: £5,407,000) reflects a fair value liability of £3,553,000 (2016: £6,594,000) net of the related deferred tax asset of £604,000 (2016: £1,187,000).

23. Related party transactions

During the year the Company paid £2,794,000 (2016: £2,760,000) in rent and other charges to the Colston Property Partners group. Both PB Smith and J Morley, a former director of the Company are directors of Colston Property Partners Limited. At 30 June 2017 the Company owed Colston Property Partners Limited £nil (2016: £ nil).

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2017 (continued)

23. Related party transactions (continued)

During the year the Company paid £175,200 (2016: £161,000) in rent to the Paul Smith Limited Executive Pension Scheme. P B Smith is a member of the Paul Smith Limited Executive Pension Scheme. At 30 June 2017 the Company owed the Paul Smith Limited Executive Pension Scheme £nil (2016: £2,000).

The company has paid pension contributions of £201,000 (2016: £201,000) to a family member of a director. There is £nil (2016 £nil) outstanding at the year end.

Itochu Corporation is the master licensee in Japan and also a shareholder in Paul Smith Group Holdings Limited, the ultimate parent company of this entity. Licensing income of £14,222,000 (2016: £10,389,000) was received by Paul Smith Limited in the year to 30 June 2017. At 30 June 2017 Itochu Corporation owed Paul Smith Limited £2,176,000 (2016: £1,549,000) in respect of royalty and advertising income.

During the year Paul Smith Limited made trade sales of £1,792,000 (2016: £1,048,000) in the ordinary course of business to Itochu Corporation and purchased £678,000 (2016: £531,000) from Itochu Corporation. At 30 June 2017 the net amount owed by Itochu Corporation to Paul Smith Limited in respect of these transactions was £574,000 (2016: £474,000).

During the year Paul Smith Limited made trade purchases of £2,000 (2016: £4,883) in the ordinary course of business from Stapletons Retail Ltd, which is part of the Itochu Corporation. At 30 June 2017 the net amount owed by Paul Smith Limited in respect of these transactions was £nil (2016: £25).

Included in other creditors is £386,000 relating to loans due to the directors of the Company (2016: £110,000 due to the directors). There is no fixed repayment schedule for the loans.

24. Controlling party

The immediate parent undertaking is Paul Smith (Holdings) Limited incorporated in England and Wales. The smallest and largest group of undertakings for which group financial statements are drawn up is Paul Smith Group Holdings Limited. Copies of the group financial statements are available from Companies House, Cardiff.

The ultimate controlling party is Sir Paul Smith.