

Paul Smith Limited

**Annual report and financial statements
for the year ended 30 June 2018**

Registered number: 01170719



Paul Smith Limited

Annual report and financial statements for the year ended 30 June 2018

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Paul Smith Limited

Strategic report for the year ended 30 June 2018

The directors present their strategic report on Paul Smith Limited (the 'company') for the financial year ended 30 June 2018.

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, transition and significant change. Total turnover increased by 4% to £165,013,000 (2017: £159,178,000). The operating loss for the year was £1,832,000 (2017: profit £1,067,000)

Sales increased across our retail and wholesale channels and we are pleased to see the positive results following the changes made to our business and products. Our increasing overheads reflect continued investment in new shops and our business systems as well as the impact of a weaker pound on our purchases and the cost of our operating overseas. Operating expenses reflect the significant challenges to the high street which have led to an unusually high bad debt charge this year.

Retail sales for the year ended 30th June 2018 increased by 7% overall and 7% on a like-for-like basis, reflecting a positive performance across most of our core markets. The company continued its strategy of shop openings in key markets with a new shop in Manchester. We plan to open a new shop at Kings Cross in London in October 2018.

Our Retail sales performance continued since the year end. Retail sales for the Spring Summer 2018 season were 4% up overall on the previous Spring Summer season and 3% up on a like-for-like basis.

E-commerce sales continue to increase, growing by 16% 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 29% of our retail sales (2017: 26%).

Wholesale sales to franchise partners, leading department stores and selected multi-brand shops and online retailers throughout the world, increased by 3% to £82,450,000 (2017: £79,905,000).

Despite the general demise of the wholesale channel, we have proved that modest growth is possible. We have performed well, in terms of sell-through, for our wholesale customers. We have improved our position in many of our franchise territories and we are seeking opportunities with already developed relationships with department stores and e-commerce players. We experienced stronger demand in our core markets. Sales to department stores, e-commerce & independents have all increased whilst sales to franchise partners were down overall, mainly in the Middle East and South East Asia.

Forward orders for Spring Summer 2019 on a like-for-like basis, were 7% up on the previous Spring Summer season reflecting further positive reaction 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 decreased by 3% to £21,504,000 (2017: £22,164,000) mainly due to a weaker Japanese Yen and the termination of our R.Newbold & Co license in Japan as we refocus our business in Japan. No significant new licenses were entered into during the year.

Paul Smith Limited

Strategic report for the year ended 30 June 2018 (continued)

We successfully completed the transition to our new ERP and warehouse management systems. These systems will continue to deliver benefits as we enhance our capability to utilise them fully.

We consolidated our warehousing facilities in Nottingham and acquired our stores from our former franchise partner in Hong Kong.

We continued to re-appraise and restructure our business. As a result, we have recognised exceptional costs of £1,414,000 (2017: £1,325,000) which includes the costs of restructuring and reorganisation.

Whilst we do not under-estimate the challenges in our market, we have made significant progress in returning to growth and building a strong foundation as a result of the significant investment and efforts made. 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.

The UK's decision to leave the European Union and the uncertainty around the implications of Brexit, poses a threat to customer confidence and increased production and operating costs. Until any clear proposals with regard to transitional rules and the terms of an exit plan are announced by the UK Government, there is uncertainty about the longer-term implications of Brexit for the company.

The primary risks following the decision to leave the European Union are uncertainty in UK consumer confidence and the implications of any changes to duty and the ability to freely move goods across borders for the purposes of production and sale of goods. The company will continue to maintain an open dialogue regarding the impact of Brexit with key suppliers, stakeholders and professionals as we actively pursue any actions that will limit our exposure to additional costs of operating.

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 significant changes to product and design structure which has been implemented in recent years and will continue to monitor and react to changes affecting this strategy.

Financial risk management

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, as far as possible, 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.

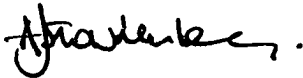
Paul Smith Limited

Strategic report for the year ended 30 June 2018 (continued)

Employees

The company provides employees with information on trading and other key developments and 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, and where practicable, the continued employment of those who may become disabled during their employment.

On behalf of the Board



A J S Long

Director

17 October 2018

Paul Smith Limited

Directors' report for the year ended 30 June 2018

The directors present their Directors' report with the audited financial statements of the Company for the financial year ended 30 June 2018.

Results and dividends

The Company's loss for the financial year was £3,165,000 (2017: loss of £1,373,000). Dividends of £2,323,000 have been paid in the year (2017: £6,240,000).

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 (2017: £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

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

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 2018 (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

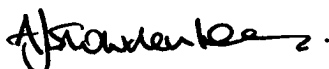
Each of the persons who is a director at the date of approval of this report confirms that:

- 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

17 October 2018

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 2018 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 2018; 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 2018 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

17 October 2018

Paul Smith Limited

Statement of comprehensive income for the year ended 30 June 2018

	Note	2018 £'000	2017 £'000
Turnover	4	165,013	159,178
Cost of sales		(82,159)	(74,754)
Gross profit		82,854	84,424
Operating expenses	5	(84,686)	(83,357)
Operating (loss)/profit		(1,832)	1,067
Analysed as:			
Operating (loss)/profit before exceptional items		(418)	2,392
Exceptional items	5	(1,414)	(1,325)
Operating (loss)/profit	5	(1,832)	1,067
Interest receivable and similar income	6	111	169
Interest payable and similar expenses	7	(784)	(678)
(Loss)/profit before taxation		(2,505)	558
Tax on (loss)/profit	10	(660)	(1,931)
Loss for the financial year		(3,165)	(1,373)
Other comprehensive income / (expense):			
Cash flow hedges			
-Changes in value of hedged instrument		1,039	4,160
-Reclassifications to revenue within the profit and loss		29	787
-Reclassifications to cost of sales within the profit and loss		(200)	(1,906)
-Reclassifications to administrative expenses within the profit and loss		(286)	-
Total tax on components of other comprehensive income	10	(99)	(583)
Other comprehensive income for the year, net of tax		483	2,458
Total comprehensive (expense)/income for the year		(2,682)	1,085

All amounts relate to continuing operations.

The notes on pages 11 to 35 form part of these financial statements.

Paul Smith Limited

Balance sheet as at 30 June 2018

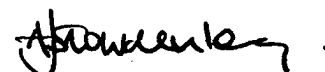
	Note	2018	2017
		£'000	£'000
Fixed assets			
Intangible assets	12	7,355	5,486
Tangible assets	13	66,192	67,452
Investments	14	3,383	3,383
		76,930	76,321
Current assets			
Stocks	15	47,232	40,471
Debtors	16	87,323	81,588
Current asset investments	17	99	99
Cash at bank and in hand		10,950	22,408
		145,604	144,566
Creditors: amounts falling due within one year	18	(93,116)	(84,051)
Net current assets		52,488	60,515
Total assets less current liabilities		129,418	136,836
Creditors: amounts falling due after one year	18	(12,532)	(14,945)
Net assets		116,886	121,891
Capital and reserves			
Called up share capital	20	48	48
Capital redemption reserve	20	3	3
Cashflow hedge reserve	22	(2,466)	(2,949)
Retained earnings	20	119,301	124,789
Total equity		116,886	121,891

The financial statements on pages 8 to 35 were approved by the board of directors on 17 October 2018 and were signed on its behalf by:

P B Smith
Director



A J S Long
Director



Registered Company number: 01170719

Paul Smith Limited

Statement of changes in equity for the year ended 30 June 2018

	Note	Share capital £'000	Capital redemption reserve £'000	Cashflow hedge reserve £'000	Retained earnings £'000	Total Equity £'000
Balance as at 1 July 2016	20	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	11	-	-	-	(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
Balance as at 1 July 2017	20	48	3	(2,949)	124,789	121,891
Loss for the financial year		-	-	-	(3,165)	(3,165)
Other comprehensive income for the financial year		-	-	483	-	483
Total comprehensive expense for the financial year		-	-	483	(3,165)	(2,682)
Dividends	11	-	-	-	(2,323)	(2,323)
Total transactions with owners, recognised directly in equity		-	-	-	(2,323)	(2,323)
Balance as at 30 June 2018	20	48	3	(2,466)	119,301	116,886

The notes on pages 11 to 35 form part of these financial statements.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018

1. General information

Paul Smith Limited is a private company limited by shares and it is incorporated and registered in the United Kingdom. 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 a degree of uncertainty over the level of demand for the company's products. However, the company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company has adequate resources to continue in operational existence for the foreseeable future. The directors therefore consider the going concern basis to be appropriate in preparing the 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 2018 (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 2018 (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, due to their nature or for the infrequency of the events giving rise to them, 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 2018 (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 2018 (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 2018 (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.

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) 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 2018 (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 at bank and in hand

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

Any accounts which cannot be considered cash at bank and in hand 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 2018 (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.

(iii) 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 within the same group.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018 (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. For intercompany debtors, net assets of the debtor company and future cash flows are reviewed on a company by company basis to assess the recoverability of amounts owed. 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 2018 (continued)

4. Turnover

By Geographical Location

	2018 £'000	2017 £'000
United Kingdom	71,765	65,887
Rest of Europe	44,360	42,885
Rest of the world	48,888	50,406
	165,013	159,178

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

By Category

	2018 £'000	2017 £'000
Retail	60,415	56,474
Wholesale	82,450	79,905
Licensing	21,504	22,164
Other	644	635
	165,013	159,178

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 2018 (continued)

5. Operating (loss)/profit

	2018 £'000	2017 £'000
Operating (loss)/profit is stated after charging / (crediting):		
Audit fees payable to the company's auditors	82	65
Depreciation – owned assets	3,799	4,381
Amortisation of intangible assets	892	190
Impairment of tangible assets	-	72
Restructuring and reorganisation costs	347	736
(Gain)/loss on derivative financial instruments	(362)	191
Loss/(profit) on disposal of fixed assets	162	(628)
Impairment of trade receivables	792	56
Impairment of inventories	877	(865)
Inventory recognised as an expense	80,216	73,807
Operating lease charges	9,455	9,361
Increase in fair value of investment property	-	(1,060)
Foreign exchange gains	(36)	(2,048)
Operating expenses are analysed as:		
Employee costs	32,911	33,702
Operational costs	29,330	28,222
Other administrative expenses	22,445	21,433
Total operating expenses	84,686	83,357

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.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018 (continued)

5. Operating (loss)/profit (continued)

Exceptional items are presented separately as, due to their nature or for the frequency of the events giving rise to them, this aids comparison with prior years and enables a better assessment of the trends of financial performance.

Exceptional items charged to operating (loss) / profit are:

	2018 £'000	2017 £'000
Restructuring and reorganisation costs	347	736
Impairment of trade debtors	550	-
Impairment of tangible assets	-	72
Parallel IT running costs	517	517
	1,414	1,325

Exceptional costs of £1,414,000 (2017: £1,325,000) include £347,000 (2017: £736,000) of costs of restructuring and reorganisation resulting from our reorganisation of design teams, products and collections. £517,000 (2017: £517,000) was incurred in respect of parallel running costs of our old and new ERP systems and a £550,000 (2017: £nil) debtor impairment was recorded as a result of a major customer going into administration. The remaining prior year exceptional costs relate to the impairment of tangible assets as a result of the impairment reviews performed. 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

	2018 £'000	2017 £'000
Bank interest receivable	36	45
Group interest receivable	75	124
Total interest receivable and similar income	111	169

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018 (continued)

7. Interest payable and similar expenses

	2018	2017
	£'000	£'000
Bank interest payable	198	137
Group interest payable	586	541
Total interest payable and similar expenses	784	678

8. Employee information

The aggregate staff costs were as follows:

	2018	2017
	£'000	£'000
Wages and salaries	28,684	29,601
Social security costs	3,545	3,445
Other pension costs	682	656
	32,911	33,702

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

	2018	2017
	£'000	£'000
Operating expenses before exceptional items	32,587	32,990
Exceptional items	324	712
	32,911	33,702

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018 (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	2018	2017
	Number	Number
Office and administration	238	268
Design	121	105
Production	36	40
Sales	379	354
Warehouse	166	157
	940	924

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 £131,000 at the balance sheet date (2017: £106,000).

9. Directors' remuneration

	2018	2017
	£'000	£'000
Aggregate remuneration	920	997

The number of directors who were members of money purchase pension schemes during the year was 3 (2017: 3). Aggregate emoluments include pension costs of £20,000 (2017: £5,000).

The number of directors, to whom benefits are accruing under the Employee-Financed Retirement Scheme ("EFRBS") is nil (2017: 1). Contributions were paid during the year of £nil (2017: £nil). An amount of £nil is included in accruals (2017: £499,000) relating to one director which was released by the company on receiving contributions from the fund during the year.

	2018	2017
Highest paid director:	£'000	£'000
Remuneration in respect of qualifying services	436	475

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018 (continued)

10. Tax on (loss)/profit

(a) Tax expense included in profit or loss

	2018 £'000	2017 £'000
Current Tax		
United Kingdom		
UK corporation tax on the (loss)/profit for the year	64	886
Adjustments in respect of prior years	76	880
	140	1,766
Foreign Tax		
Corporation taxes	-	11
Total current tax	140	1,777
Deferred tax		
Origination and reversal of timing differences		
- Origination and reversal of timing differences	512	95
- Adjustment in respect of prior years	8	(20)
- Impact of change in rate	-	79
Total deferred tax (note 19)	520	154
Tax on (loss)/profit	660	1,931

(b) Tax expense included in other comprehensive income

	2018 £'000	2017 £'000
Deferred tax		
- Origination and reversal of timing differences	(99)	(583)
Total tax expense included in other comprehensive income	(99)	(583)

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018 (continued)

10. Tax on (loss)/profit (continued)

(c) Reconciliation of tax charge

The UK corporation tax assessed for the year is different (2017: different) to the standard rate of corporation tax in the UK of 19% (2017: 19.75%). The differences are explained below:

	2018 £'000	2017 £'000
(Loss)/profit before taxation	(2,505)	558
(Loss)/profit before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.75%)	(476)	110
Effect of:		
Expenses not deductible for tax purposes	1,055	960
Group relief not paid for	57	(104)
Chargeable gains	-	17
Impact of overseas tax rates	-	9
Impact of different UK tax rates	(60)	79
Adjustments in respect of prior years	84	860
Tax charge for the year	660	1,931

(d) Tax rate changes

Deferred tax balances at 30 June 2018 have been calculated using a rate of 17% (2017: 17%) 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

	2018 £'000	2017 £'000
Interim dividend paid in the year of £48.45 per share (2017: £130.16 per share)	2,323	6,240

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018 (continued)

12. Intangible assets

	Computer Software
	£'000
Cost	
At 1 July 2017	6,885
Additions	2,761
At 30 June 2018	9,646
Accumulated amortisation	
At 1 July 2017	1,399
Charge for year	892
At 30 June 2018	2,291
Net book values	
At 30 June 2018	7,355
At 30 June 2017	5,486

Paul Smith Limited

**Notes to the financial statements
for the year ended 30 June 2018 (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 2017	17,499	45,296	1,524	14,107	16,920	336	19,874	115,556
Additions	-	-	61	1,001	1,155	31	424	2,672
Transfer from a group undertaking	-	-	-	-	88	-	-	88
Disposals	-	-	(23)	(1,566)	(535)	(73)	-	(2,197)
At 30 June 2018	17,499	45,296	1,562	13,542	17,628	294	20,298	116,119
Accumulated depreciation								
At 1 July 2017	-	3,887	1,304	9,796	14,671	319	18,127	48,104
Charge for year	-	768	35	1,079	989	9	919	3,799
Transfer from a group undertaking	-	-	-	-	59	-	-	59
Disposals	-	-	(23)	(1,488)	(451)	(73)	-	(2,035)
At 30 June 2018	-	4,655	1,316	9,387	15,268	255	19,046	49,927
Net book value								
At 30 June 2018	17,499	40,641	246	4,155	2,360	39	1,252	66,192
At 30 June 2017	17,499	41,409	220	4,311	2,249	17	1,747	67,452

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018 (continued)

13. Tangible assets (continued)

Included within freehold property above is land with a net book value of £10,216,000 (2017: £10,216,000).

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

	2018	2017
	£'000	£'000
Cost	16,317	16,317
Accumulated depreciation	(1,357)	(1,110)
Net book value	14,960	15,207

14. Investments

	2018
	£'000
Cost	
At 1 July 2017 and 30 June 2018	3,383
Net book value	
At 30 June 2018	3,383
At 30 June 2017	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 and retail outlets selling goods produced by Paul Smith Limited. 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 2018 (continued)

15. Stocks

	2018 £'000	2017 £'000
Raw materials and WIP	10,970	8,025
Finished goods and goods for resale	36,262	32,446
	47,232	40,471

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 £7,416,000 (2017: £6,539,000).

16. Debtors

	2018 £'000	2017 £'000
Trade debtors	10,306	11,442
Amounts owed by group undertakings	49,881	38,544
Corporation tax	595	26
Other debtors	3,078	2,384
Derivative financial instruments	36	153
Deferred taxation (see note 19)	1,480	2,099
Prepayments and accrued income	21,947	26,940
	87,323	81,588

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

Trade debtors are stated after provisions for impairments of £924,000 (2017: £161,000).

17. Current asset investments

Current asset investments represent cash of £99,000 held in deposit accounts with withdrawal terms (2017: £99,000).

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018 (continued)

18. Creditors

	2018	2017
	£'000	£'000
Amounts falling due within one year:		
Bank loans and overdrafts (see below)	2,137	2,057
Trade creditors	16,768	15,686
Amounts owed to group undertakings	65,923	57,617
Other creditors	1,552	1,580
Taxation and social security	2,555	2,476
Derivative financial instruments	157	272
Accruals and deferred income	4,024	4,363
	93,116	84,051
Amounts falling due after one year:		
Bank loans and overdrafts (see below)	9,682	11,664
Derivative financial instruments	2,850	3,281
	12,532	14,945

Interest is charged on some amounts owed to group undertakings 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.

Bank loans of £9,737,000 and £2,082,000 (2017: £11,326,000 and £2,395,000) are repayable in equal monthly instalments over 7 years with £10,908,000 due within one to five years and £911,000 in more than five years (2017: £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 2018 (continued)

19. Deferred taxation

The deferred tax asset is analysed as follows:

	£'000
Balance at 1 July 2016	2,836
Amount charged to income statement	(154)
Amount charged to statement of comprehensive income (note 10)	(583)
Balance as at 30 June 2017	2,099
Amount charged to the income statement	(520)
Amount charged to statement of comprehensive income (note 10)	(99)
Balance at 30 June 2018	1,480

The deferred tax asset relates to the following:

	2018 £'000	2017 £'000
Accelerated capital allowances and other timing differences	670	746
Hedged derivative fair values	505	604
Other timing differences	305	749
	1,480	2,099

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018 (continued)

20. Share capital and other reserves

	2018	2017
	£'000	£'000
Allotted, issued and fully paid		
47,940 (2017: 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:

	2018	2017
	£'000	£'000
Payment Due		
Not later than one year	8,379	8,521
Later than one year and not later than five years	18,897	21,572
Later than five years	8,759	6,875
	36,035	36,968

In addition, the company has a number of store leases where the overall rent payable is a percentage of retail store income. However, these normally include a minimum base rent included in the commitments shown above.

The Company has no other off-balance sheet arrangements.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018 (continued)

22. Financial instruments

The company has the following financial instruments:

	Note	2018 £'000	2017 £'000
Financial assets at fair value through profit or loss			
- Derivative financial instruments	16	36	153
Financial assets that are debt instruments measured at amortised cost			
- Trade debtors	16	10,306	11,442
- Other debtors	16	3,078	2,384
- Accrued income		6,558	7,216
- Investment in short term deposits	17	99	99
- Cash at bank and in hand		10,950	22,408
		30,991	43,549
Financial liabilities measured at fair value through profit or loss			
- Derivative financial instruments	18	3,007	3,553
Financial liabilities measured at amortised cost			
- Bank loans	18	11,819	13,721
- Trade creditors	18	16,768	15,686
- Other creditors	18	1,552	1,580
- Accruals	18	4,024	4,363
		34,163	35,350

Derivative financial instruments – Forward contracts

The Company enters into forward foreign currency contracts to mitigate the exchange rate risk. Cash flow hedges are in place to hedge exposure to foreign currency payables, interest and revenue, with gains or losses made on settlement, where effective, being recycled to cost of sales, operating expenses and revenue respectively. At 30 June 2018, the outstanding contracts all mature within 64 months (2017: 76 months) of the year end. The Company is committed to sell Japanese ¥4,525,000,000 at a fixed sterling amount (2017: Japanese ¥6,250,000,000) and to buy US \$2,000,000 at a fixed rate.

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

The cashflow hedge reserve of £2,466,000 (2017: £2,949,000) reflects a fair value liability of £2,971,000 (2017: £3,553,000) net of the related deferred tax asset of £505,000 (2017: £604,000).

23. Related party transactions

During the year the Company paid £2,466,000 (2017: £2,794,000) 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 2018 the Company owed Colston Property Partners Limited £nil (2017: £ nil).

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2018 (continued)

23. Related party transactions (continued)

Scheme. During the year the Company paid £175,200 (2017: £175,200) 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 2018 the Company owed the Paul Smith Limited Executive Pension Scheme £nil (2017: £nil).

The company has made pension payments of £201,000 (2017: £201,000) to a family member of a director and received the same amount from the related pension fund. There is £nil (2017: £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 £13,537,000 (2017: £14,222,000) was received by Paul Smith Limited in the year to 30 June 2018. At 30 June 2018 Itochu Corporation owed Paul Smith Limited £2,167,000 (2017: £2,176,000) in respect of royalty and advertising income.

During the year Paul Smith Limited made trade sales of £882,000 (2017: £1,792,000) in the ordinary course of business to Itochu Corporation and purchased £554,000 (2017: £678,000) from Itochu Corporation. At 30 June 2018 the net amount owed by Itochu Corporation to Paul Smith Limited in respect of these transactions was £107,000 (2017: £574,000).

During the year the Paul Smith Limited made trade purchases of £2,000 (2017: £2,000) and trade sales of £564,000 (2017: £429,000) in the ordinary course of business from / to entities which are part of the Itochu Corporation. At 30 June 2018 the net amount receivable by Paul Smith Limited in respect of these transactions was £33,000 (2017: £18,000).

Included in other creditors is £362,000 relating to loans due to the directors of the Company (2017: £386,000 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.