Paul Smith Limited

Annual report and financial statements

for the year ended 30 June 2022

Registered number: 01170719

Paul Smith Limited

Annual report and financial statements for the year ended 30 June 2022

Contents

Paul Smith Limited

Strategic report
for the year ended 30 June 2022

The directors present their strategic report on Paul Smith Limited (the 'Company') for the financial year ended 30 June 2022.

Principal activity

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.

Review of the business

The directors consider the result for the year to be pleasing following another period of significant challenge. The financial results reflect the benefits of the mitigating steps we took during the pandemic and the increased demand for our products since the pandemic. The business has recovered strongly, but in common with other retailers, continues to face challenges including the impact of rising inflation and low consumer confidence.

Turnover increased by 19% to £146,898,000 (2021: £123,849,000). Gross margin improved as a result of both higher volumes, stock efficiencies and more sales at full price as Covid restrictions eased. Operating losses reduced to £7,517,000 (2021: operating loss of £24,381,000 after a year of significant exceptional costs). We ended the year in a strong cash position. Net assets at 30 June 2022 were £40,684,000 (2021: £48,427,000) reflecting the loss for the year after interest and taxation charges.

The business faced further but differing challenges across its trading territories and channels. The easing of Covid restrictions altered the mix of retail sales between physical shops and E-commerce for our own retail as well as our wholesale customers. The conflict in Ukraine and resulting inflationary pressures are expected to provide continued challenges in our market.

Retail and E-commerce

Retail sales for the year ended 30 June 2022 increased by 37% overall and 38% on a like-for-like basis, benefitting from increasing footfall associated with shops being open for the majority of the year as Covid restrictions eased. Retail sales for the Autumn Winter 2021 season were 27% up overall on the previous Autumn Winter season and 28% up on a like-for-like basis but 6% down on a like-for-like basis on Autumn Winter 2019 (pre pandemic). Retail sales for the Spring Summer 2022 season were 47% up on the previous year and 46% up on a like-for-like basis but also 3% up compared to Spring Summer 2019 (pre-pandemic).

We are slowly seeing improvements in footfall with overall retail sales for the Autumn Winter 2022 to date at 13% up on Autumn Winter 2021 but 7% down on pre-pandemic Autumn Winter 2019 levels on a like-for-like basis. Within this, E-commerce sales are 8% down on Autumn Winter 2021 but 45% up on Autumn Winter 2019.

With all shops now open, direct E-commerce sales during the year represented 42% of our retail sales (2021: 51%). We expect E-commerce momentum to continue based on current trends and continued investment in our digital capability and digital marketing activity.

There are some very encouraging signs of growth, particularly in our tailoring categories and increasing footfall in some of our larger shops as customers return to city centres.

We have continued to review and refine our shop portfolio and have closed a shop in Birmingham, UK.

Wholesale

Wholesale sales to franchise partners, leading department stores and selected multi-brand shops and online retailers throughout the world, increased by 11% to £83,236,000 (2021: £74,919,000). Despite the pandemic, our wholesale business has remained resilient throughout and we have continued to perform well in terms of deliveries and sell-through. Forward orders confirmed since the year end for Spring Summer 2023 were 4% up on the previous Spring Summer 22, pandemic impacted Spring Summer 2022 and even 1% up on pre-pandemic Spring Summer 2020.

Strategic report
for the year ended 30 June 2022 (continued)

Review of the business (continued)

Wholesale (continued)

We have successfully managed stock levels despite the erratic and uncertain demand during the year working closely with our suppliers to match supply with demand throughout where possible.

Licencing

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 was down 1% on the prior year at £8,349,000 (2021: £8,433,000) mainly as a result of lower perfume and spectacle sales as the current license agreements end prior to re-launching with a new strategic partners.

Exceptional costs

We recognised a net exceptional credit of £734,000 (2021: costs of £8,221,000) from much reduced exceptional costs of £723,000 offset by a £1,457,000 credit for reversal of impairments against intercompany loans. These items mainly represent non-cash expenses, including the prior year reduction in value of our investment properties due to the uncertain market conditions as at the year end and impairment of loans to subsidiaries following recent losses in the pandemic.

Whilst we do not under-estimate the challenges in our market, we have returned to a trend of growth and continue to build on the strong foundation resulting from our significant efforts over recent years.

Funding

In September 2020, the parent company entered into an agreement with the shareholders under which a net £44,000,000 of funding was received by the company. This provided financial stability and certainty during a period of challenging trading conditions due to COVID-19 to the group and the Company. As a result of this the Company had £41,000,000 of cash balances and current asset investments as of 30 June 2022 (2021: £40,000,000) and continued to closely manage cash flows.

Future developments

The pandemic bought significant uncertainties, but we responded to the challenge and remain financially secure, working closely with our shareholders to provide much needed security to focus on a positive outlook for the business. The business has continued to thrive across our digital channels is well placed to benefit from the easing of restrictions across retail and wholesale. We are already seeing the positive trends as footfall increases in our own shops and our collections are well received by our wholesale partners. In view of this encouraging performance, we are progressively increased marketing expenditure to continue building brand awareness.

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.

Cost inflation

We face an increasingly uncertain cost environment. Operating cost increases have been budgeted including energy costs, in line with our fixed energy contract that ends in March 2023. We continue to manage overheads and review all costs and will continue to look for opportunities to improve our cost base resilience.

COVID-19

COVID-19 has severely impacted the global economy and our business, particularly our retail stores but we have proved our resilience and we continue to work on providing a strong financial position in order to give us the confidence to tackle such challenges going forward. We continue to appraise our shops and will adjust our retail footprint and invest in our online capability. We will continue to work with our shareholders to ensure continued support as required in response to such events and risks.

Strategic report
for the year ended 30 June 2022 (continued)

Principal risks and uncertainties (continued)

Supply chain

Along with Brexit, the pandemic and the conflict in Ukraine all continue to pose logistical challenges around timely movement of goods and increased production and operating costs. We are now operating a customs warehouse and utilising our European subsidiaries where possible and continue to challenge and seek all appropriate measures to minimise the negative impacts.

Competition

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 Group'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.

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 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 and like-for like sales, footfall and gross retail margins. Wholesale performance measures include total sales and gross wholesale margins, licence income is measured through year on year revenue growth.

Key Performance Indicator	2022	2021	% change
Turnover	£146,898,000	£123,849,000	+19%
Including: Retail & E-commerce	£54,300,000	£39,702,000	+37%
Wholesale	£83,236,000	£74,919,000	+11%
Licensing	£8,349,000	£8,433,000	-1%
Like-for like Retail Sales	£53,881,000	£39,068,000	+38%
Like-for-Like footfall	2,360,000	993,000	+137%
Gross Profit	£58,863,000	£45,460,000	+29%
Operating loss before exceptional items	-£8,251,000	-£16,160,000	-49%
Exceptional credit/(cost) items	£734,000	-£8,221,000	-109%
Net Assets	£40,684,000	£48,427,000	-16%

The Directors' duties and company stakeholders

The directors of the Company, as for all UK companies, must act in accordance with the general duties set out in section 172 of the Companies Act 2006. This is summarised as follows:

A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members a whole, and in doing so have regard (amongst other matters) to:

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

Key decisions

The decision to open new and close existing shops ensures that the company's resources are invested in profitable activities. The board considered and compared the likely profitability and other benefits of each existing and proposed shop location using trend analysis as well as other third party market intelligence.

The company will be launching several new licenses in the coming year. The board carefully considers the suitability of license partners, business plans and impact on the brand, seeking consensus from all key stakeholders.

Strategic decisions

The Company operates in a competitive market for both retail and wholesale income with changes in distribution channels occurring over time and as a consequence of Brexit, the COVID-19 pandemic and more recent geo-political factors and inflationary pressures. This has required continuing review and enhancement of marketing, investment in technology, supply chain and distribution to maintain revenue and profitability whilst engaging and communicating with all stakeholders including suppliers, customers and employees.

The Company has continued to invest in its digital offering whilst reviewing the feasibility of each shop in the light of reduced footfall and future prospects given the current trading conditions.

Our employees

Employees are essential to the Company's interaction with other stakeholders and their commitment ensures successful trading and development of the business. We invest in employees through training, remuneration and appropriate incentive schemes. Assessing the health and safety of employees, and those who they come into contact with, has been paramount in the COVID-19 outbreak.

The Company provides employees with information on trading and other key developments and continued communication using our intranet, surveys, focus groups and working groups. Employees' views are taken into account when decisions are made which are likely to affect their interests.

We have developed our Ethnicity, Diversity and Inclusivity strategy with the aim of developing a diverse, healthy & prosperous working culture where everyone has the same opportunities, feels comfortable & where everyone has a voice. We employ over 40 different nationalities and we strive to ensure that our workforce is as diverse and multinational as our customer base.

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.

The Company does not offer a share option scheme to its employees.

Strategic report
for the year ended 30 June 2022 (continued)

Business relationships

Customer relationships and high standards of service are key to maintaining and growing the Company's business. The Company has a wide customer base across a broad geographical range and seeks to provide the right products each season to attract customers and enhance the brand. Ongoing communication occurs through the Company's websites, own retail shops and sales teams for all wholesale customers including franchise partners, department stores, online retailers and independent boutiques.

Suppliers are fundamental to the business in respect of providing ethically sourced and a high quality range of products and in ensuring that the supply and quality of clothing to be sold is maintained. There is regular communication with major suppliers and agreements in place to incentivise mutually beneficial relationships between suppliers and the Company and the Company policy is to consistently meet payment terms.

Community and environment

The Company both promotes and encourages engagement with and employee involvement in community and charitable projects including its support of the Paul Smith's Foundation, a registered charity which launched its own website in October 2020.

The Company is committed to constantly reassess the part it plays in creating a more sustainable fashion industry and maintaining a sustainable approach across all aspects of the business. This includes the practices within our international headquarters, our manufacturing processes and the distribution and delivery of our products to the customer. Our Path to Sustainability launched in March 2021 and lays out a comprehensive set of targets, concentrating on four key areas: Responsible Sourcing; Community Care; Reducing Emissions; and Increased Circularity.

Standards and values

The directors recognise the importance of a positive culture within, and created by, the business. The Company aims to delight customers and provide a positive contribution to the world, our shareholders, staff, suppliers and customers.

Shareholders

The shareholders are directly represented on the board and have oversight of the operational *information, annual plans, initiatives and longer term strategy. This has resulted in the support from* our shareholders in the form of a loan following the impact on trade and cashflow of COVID-19.

On behalf of the Board

A J S Long
Director

21 October 2022

Directors' report
for the year ended 30 June 2022

The directors present their Directors' report with the audited financial statements of the Company for the financial year ended 30 June 2022.

Results and dividends

The Company's loss for the financial year was £8,095,000 (2021: loss of £25,278,000). Dividends of £nil have been paid in the year (2021: £23,519,000).

Strategic report

The following items have been included within the strategic report on pages 1 to 5:

- Principal activities
- Business review
- Future developments
- Key performance indicators
- Principal risks and uncertainties and financial risk management
- Engagement with employees
- Engagement with suppliers, customers and others

The Company's disclosures with regards to Streamlined energy and carbon reporting ("SECR") are included in Paul Smith Group Holdings Limited financial statements.

Branches outside the UK

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

Going concern

The Company is part of a larger group, headed by Paul Smith Group Holdings Limited and the Company is reliant on the Group's cash and bank loans. Paul Smith Group Holdings Limited has confirmed its intention to provide continuing financial support to enable the Company to settle its liabilities as they fall due. The Company has reported a loss of £8,095,000 for the year to 30 June 2022 (2021: £25,278,000), net assets of £40,684,000 (2021: £48,427,000) and net current liabilities of £5,326,000 (2021 net current assets £1,828,000) . In September 2020, the Group entered into an agreement with its shareholders under which a net £44m of funding was received by the Group. The amount is not repayable before 2025. As at the date of approval of these financial statements, the Group has total cash balances, including term deposits of £45,532,000 and total bank loans of £16,287,000. The bank loans are subject to continued compliance with both financial and administrative covenants.

In light of the current economic uncertainties caused by the pandemic, the Directors have reviewed the current financial performance and liquidity of the business, and assessed its resilience to a number of scenarios. The Group has modelled a Base Case forecast alongside Severe downside scenarios based on what would need to be true to seriously threaten group cash reserves, including further impact of Covid-19 or other external events, on footfall and consumer spend as well as scenarios around increased operating costs caused by Brexit, potential shortages of resources and payroll inflation.

The Base Case forecast includes prudent growth assumptions, factoring a continued challenge to physical retail, wholesale and licence channels, but with a continued growth in online sales. This scenario assumes no further lockdown measures and a return to global economic recovery.

The Base Case scenario assumes an overall 16% increase in FY23 sales when compared to FY22 and a 24% increase in FY24 compared to FY22. When compared to FY19 (pre-pandemic), this equates to a 9% increase in FY23 and a 16% increase in FY24. By sales channel this equates to a 2% increase in overall Retail sales in FY23 when compared to FY19 levels and a 7% increase compared to FY19 retail sales levels by FY24. Whilst E-Commerce sales are assumed to grow by 52% in FY23 when compared to FY19 (having increased every year since FY19), physical retail is assumed to decrease by 12%. Wholesale sales are assumed to increase by 18% in FY23 compared to FY19.

Going concern (continued)

The Severe downside scenario includes significant reductions against FY23 Base Case trade assumptions. This scenario assumes that retail sales do not recover as quickly as expected, mainly due to reductions in consumer spending and results in -23% (£26m) annual retail sales in FY23.

In addition, a significant increase in cost of sales due to the increased materials, pay and production costs and the additional costs and delays in air and sea freight, have been included. We have assumed that these extra costs could not be recovered through increased sales price, and would result in a £24.5m reduction in Gross Margin in FY23 and FY24.

The Group continues to monitor and manage the direct and indirect impact of the conflict in Ukraine and Russia.

As part of the going concern assessment, the directors have also considered mitigating actions which may be taken to protect liquidity in the event that trading is worse than the Base Case scenario. These include but are not limited to further shareholder capital injection, capital investment restrictions, cost reduction measures and disposal of property or other assets.

As part of the going concern assessment, the Group has modelled both cash and covenant headroom over the next 12 months. Under both the Base Case and Severe downside scenarios, the Group would have adequate cash headroom without the need for additional financing.

As sufficient cash headroom exists during the 12 month going concern period, the Directors believe there is a reasonable expectation that the group has adequate liquidity headroom and so they continue to adopt the going concern basis in preparing the financial statements.

Political donations

During the year the Company made no donations (2021: £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
A J S Long
G A Chilton

Details of related party transactions involving directors of the group are given in note 24 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.

Directors' report
for the year ended 30 June 2022 (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

BDO LLP continue in office under section 487 of the Companies Act 2006.

On behalf of the Board

A J S Long
Director

21 October 2022

Independent auditor's report to the members of Paul Smith Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Paul Smith Limited ("the Company") for the year ended 30 June 2022 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

Independence

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Paul Smith Limited

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

Other Companies Act 2006 reporting

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

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Enquiring of management and the directors, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they had knowledge of any actual, suspected or alleged fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.

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

Auditor's responsibilities for the audit of the financial statements (continued)

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company based on our understanding of the business, sector experience and discussions with management. The most significant considerations for the Company are compliance with UK Accounting Standards, the Companies Act 2006, corporate taxes, VAT legislation, employment taxes, health and safety, sale of goods legislation, intellectual property legislation and the Bribery Act 2010.

- Discussing amongst the engagement team to assess how and where fraud might occur in the financial statements, any potential indicators of fraud and non-compliance with laws and regulation.

We designed and executed procedures in line with our responsibilities to detect material misstatements in respect of irregularities, including fraud. These procedures included the following:

- We made enquiries of management and those charged with governance and reviewed correspondence with the relevant authorities to identify any irregularities or instances of non-compliance with laws and regulations.

- We tested the appropriateness of accounting journals and other adjustments made in the preparation of the financial statements. We obtained a complete population of all journals in the year and test any which we considered were indicative of management override.

- We reviewed the Company's accounting policies for non-compliance with relevant standards. Our work also included considering significant accounting estimates for evidence of misstatement or possible bias and testing any significant transactions that appeared to be outside the normal course of business.

- We also tested manual journals posted to revenue, agreeing them to supporting documentation to check that they were appropriate, correctly recorded and supported by appropriate evidence.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

DocuSigned by:
Laurie Hannant
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Laurie Hannant (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Nottingham, UK
21 October 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Paul Smith Limited

Statement of comprehensive income for the year ended 30 June 2022

	Note	2022 £'000	2021 £'000
Turnover	4	**146,898**	123,849
Cost of sales		**(88,035)**	(78,389)
Gross profit		**58,863**	45,460
Other operating income		**141**	2,838
Operating expenses	5	**(66,521)**	(72,679)
Operating loss	5	**(7,517)**	(24,381)
Analysed as:			
Operating loss before exceptional items		**(8,251)**	(16,160)
Exceptional items	5	**734**	(8,221)
Operating loss	5	**(7,517)**	(24,381)
Interest receivable and similar income	6	**141**	128
Interest payable and similar expenses	7	**(1,311)**	(1,105)
Loss before taxation		**(8,687)**	(25,358)
Tax on loss	10	**592**	80
Loss for the financial year		**(8,095)**	(25,278)
Other comprehensive income:			
Cash flow hedges			
-Changes in value of hedged instrument		**368**	3,121
-Reclassifications to revenue within the profit and loss		**66**	355
Total tax on components of other comprehensive income	10	**(82)**	(660)
Other comprehensive income for the year, net of tax		**352**	2,816
Total comprehensive expense for the year		**(7,743)**	(22,462)

All amounts relate to continuing operations.

The notes on pages 15 to 39 form part of these financial statements.

Paul Smith Limited

Balance sheet
as at 30 June 2022

	Note		2022		2021
		£'000	**£'000**	£'000	£'000
Fixed assets					
Intangible assets	12		**1,927**		3,937
Tangible assets	13		**54,908**		56,359
Investments	14		**3,459**		3,459
			60,294		63,755
Current assets					
Stocks	15	**40,416**		42,925	
Debtors	16	**54,145**		45,382	
Current asset investments	17	**19,129**		15,010	
Cash at bank and in hand		**21,808**		24,967	
		135,498		128,284	
Creditors: amounts falling due within one year	18	**(140,824)**		(126,456)	
Net current (liabilities)/assets			**(5,326)**		1,828
Total assets less current liabilities			**54,968**		65,583
Creditors: amounts falling due after one year	18		**(11,468)**		(13,657)
Provisions for liabilities	19		**(2,816)**		(3,499)
Net assets			**40,684**		48,427
Capital and reserves					
Called up share capital	21		**48**		48
Capital redemption reserve	21		**3**		3
Cashflow hedge reserve	23		**458**		106
Retained earnings	21		**40,175**		48,270
Total equity			**40,684**		48,427

The financial statements on pages 12 to 39 were approved by the board of directors on 21 October 2022 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 2022

	Note	Share capital	Capital redemption reserve	Cashflow hedge reserve	Retained earnings	Total Equity
		£'000	£'000	£'000	£'000	£'000
Balance as at 1 July 2021	21	**48**	**3**	**106**	**48,270**	**48,427**
Loss for the financial year		-	-	-	(8,095)	(8,095)
Other comprehensive income for the financial year						
Hedging loss		-	-	368	-	368
Reclassification to profit and loss		-	-	66	-	66
Tax impact on hedging		-	-	(82)	-	(82)
Total comprehensive expense for the financial year		-	-	352	(8,095)	(7,743)
Balance as at 30 June 2022	21	**48**	**3**	**458**	**40,175**	**40,684**

Statement of changes in equity for the year ended 30 June 2021

	Note	Share capital	Capital redemption reserve	Cashflow hedge reserve	Retained earnings	Total Equity
		£'000	£'000	£'000	£'000	£'000
Balance as at 1 July 2020	21	**48**	**3**	**(2,710)**	**97,067**	**94,408**
Loss for the financial year		-	-		(25,278)	(25,278)
Other comprehensive income for the financial year						
Hedging loss		-	-	3,121	-	3,121
Reclassification to profit and loss		-	-	355	-	355
Tax impact on hedging		-	-	(660)	-	(660)
Total comprehensive expense for the financial year		-	-	**2,816**	**(25,278)**	**(22,462)**
Dividends	11	-	-	-	(23,519)	(23,519)
Total transactions with owners, recognised directly in equity		-	-	-	**(23,519)**	**(23,519)**
Balance as at 30 June 2021	21	**48**	**3**	**106**	**48,270**	**48,427**

The notes on pages 15 to 39 form part of these financial statements.

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2022

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(u).

b) Going concern

The Company is part of a larger group, headed by Paul Smith Group Holdings Limited and the Company is reliant on the Group's cash and bank loans. Paul Smith Group Holdings Limited has confirmed its intention to provide continuing financial support to enable the Company to settle its liabilities as they fall due. The Company has reported a loss of £8,095,000 for the year to 30 June 2022 (2021: £25,278,000), net assets of £40,684,000 (2021: £48,427,000) and net current liabilities of £5,326,000 (2021: net current assets £1,828,000. In September 2020, the Group entered into an agreement with its shareholders under which a net £44m of funding was received by the Group. The amount is not repayable before 2025. As at the date of approval of these financial statements, the Group has total cash balances, including term deposits of £45,532,000 and total bank loans of £16,287,000. The bank loans are subject to continued compliance with both financial and administrative covenants.

In light of the current economic uncertainties caused by the pandemic, the Directors have reviewed the current financial performance and liquidity of the business, and assessed its resilience to a number of scenarios. The Group has modelled a Base Case forecast alongside Severe downside scenarios based on what would need to be true to seriously threaten group cash reserves, including further impact of Covid-19 or other external events, on footfall and consumer spend as well as scenarios around increased operating costs caused by Brexit, potential shortages of resources and payroll inflation.

The Base Case forecast includes prudent growth assumptions, factoring a continued challenge to physical retail, wholesale and licence channels, but with a continued growth in online sales. This scenario assumes no further lockdown measures and a return to global economic recovery.

b) Going concern (continued)

The Base Case scenario assumes an overall 16% increase in FY23 sales when compared to FY22 and a 24% increase in FY24 compared to FY22. When compared to FY19 (pre-pandemic), this equates to a 9% increase in FY23 and a 16% increase in FY24. By sales channel this equates to a 2% increase in overall Retail sales in FY23 when compared to FY19 levels and a 7% increase compared to FY19 retail sales levels by FY24. Whilst E-Commerce sales are assumed to grow by 52% in FY23 when compared to FY19 (having increased every year since FY19), physical retail is assumed to decrease by 12%. Wholesale sales are assumed to increase by 18% in FY23 compared to FY19

The Severe downside scenario includes significant reductions against FY23 Base Case trade assumptions. This scenario assumes that retail sales do not recover as quickly as expected, mainly due to reductions in consumer spending and results in -23% (£26m) annual retail sales in FY23.

In addition, a significant increase in cost of sales due to the increased materials, pay and production costs and the additional costs and delays in air and sea freight, have been included. We have assumed that these extra costs could not be recovered through increased sales price, and would result in a £24.5m reduction in Gross Margin in FY23 and FY24.

As part of the going concern assessment, the directors have also considered mitigating actions which may be taken to protect liquidity in the event that trading is worse than the Base Case scenario. These include but are not limited to further shareholder capital injection, capital investment restrictions, cost reduction measures and disposal of property or other assets.

The Group continues to monitor and manage the direct and indirect impact of the conflict in Ukraine and Russia.

As part of the going concern assessment, the Group has modelled both cash and covenant headroom over the next 12 months. Under both the Base Case and Severe downside scenarios, the Group would have adequate cash headroom without the need for additional financing.

As sufficient cash headroom exists during the 12 month going concern period, the Directors believe there is a reasonable expectation that the group has adequate liquidity headroom and so they continue to adopt the going concern basis 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.

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 exemption 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 or services 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.

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 e-commerce

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, including advertising income, is recognised on an accruals basis in accordance with the substance of the relevant agreement.

(iv) Other income

Other income is recognised when the right to receive payment is established. Income in respect of government grants including furlough related amounts is recognised in other operating income when the grant proceeds are received (or receivable) provided that the terms of the grant do not impose future performance-related conditions.

g) Exceptional items

The Company classifies charges or credits that have a significant 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.

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.

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 and investment property, 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 at least every 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.

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 group has early adopted the amendment to FRS 102 to recognise the change in lease payments over the period that the change is intended to compensate applicable to temporary rent concessions as a direct consequence of the Covid-19 pandemic where the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is less than the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no significant change to other terms and conditions 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 within operating expenses 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.

3. Summary of significant accounting policies (continued)

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. 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 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 within Cost of sales 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.

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 revenue or costs in line with the hedged transactions in 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 transactions

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.

3. Summary of significant accounting policies (continued)

t) Provisions

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the provision. Details of provisions recognised and the estimates and judgements can be seen in note 19.

u) 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(j) and 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 (see also note 13).

- *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 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.

u) Critical accounting judgements and key sources of estimation uncertainty (continued)

- *Accounting for derivatives and hedge effectiveness*

The company assesses hedge effectiveness using forecast foreign currency cash flows and has judged that it is appropriate to use the cash flows reflecting only committed transactions or recurring trading trends as of the balance sheet date and that the any post balance sheet transactions have a non-adjusting impact on these.

- *Onerous lease provisions*

Present obligations arising out of onerous contracts are recognised and measured as provisions. An onerous lease is considered to exist where the company has a contract under which the unavoidable costs of meeting its obligations exceed the economic benefits expected to be received. The amounts are based on the company's best estimate of the least cost of exit. Due to the short term lease terms, the impact of discounting is not material.

- *Returns provision*

The company estimates the proportion of sales that are likely to result in a return requiring a customer credit and provides for these on sale. In estimating these it makes use of recent historical experience and applicable post balance sheet data.

4. Turnover

By Geographical Area

	2022 **£'000**	2021 £'000
United Kingdom	**74,421**	52,596
Rest of Europe	**35,905**	36,214
Rest of the World	**36,572**	35,039
	146,898	123,849

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

By Channel

	2022 **£'000**	2021 £'000
Retail and e-commerce	**54,300**	39,702
Wholesale	**83,236**	74,919
Licensing	**8,349**	8,433
Other	**1,013**	795
	146,898	123,849

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

5. Operating loss

	2022	2021
	£'000	£'000
Operating loss is stated after charging / (crediting):		
Audit fees payable to the company's auditors	**130**	104
Depreciation – owned assets	**2,361**	2,332
Amortisation of intangible assets	**2,025**	2,123
Impairment of tangible assets	**148**	1,144
Onerous lease provision charge	**358**	1,436
Restructuring and reorganisation costs	**217**	1,651
Fair value (increase)/decrease on revaluation of investment property	**(45)**	1,075
(Profit) on disposal of fixed assets	**(3)**	(19)
Impairment of trade receivables	**6**	125
Impairment of inventories	**6,943**	309
Operating lease charges	**7,513**	6,716
Foreign exchange (gains)/losses	**(385)**	419
Operating expenses are analysed as:		
Employee costs	**32,818**	31,606
Operational costs	**26,378**	24,948
Fair value (increase)/decrease on revaluation of investment property	**(45)**	1,075
Other administrative expenses	**7,370**	15,050
Total operating expenses	**66,521**	72,679

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.

Operating lease expense above is the expense recorded after recognising in the income statement Covid-19-related rent concessions received of £nil (2021: £1,746,000).

Exceptional items are presented separately and consistently with prior years 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. The year ended 30 June 2021 was significantly impacted by the COVID-19 pandemic and caused a direct reduction in turnover and operating profit which is commented on in the strategic report.

5. Operating loss (continued)

Exceptional items charged to operating loss are:

	2022 £'000	2021 £'000
Restructuring and reorganisation costs	**217**	1,651
Revaluation decrease in fair value of investment property	**-**	1,075
Impairment of intercompany debtors	**924**	2,915
Reversal of impairment of intercompany debtors	**(2,381)**	-
Impairment of tangible assets	**148**	1,144
Onerous lease provision	**358**	1,436
	(734)	8,221

A net exceptional credit of £734,000 (2021: costs of £8,221,000) include £217,000 (2021: £1,651,000) of costs of restructuring and reorganisation resulting from our reorganisation of design teams, products and collections, £358,000 (2021: £1,436,000) in respect of onerous lease provisions, £924,000 (2021: £2,915,000) in respect of the impairment of amounts owed by subsidiaries that have incurred losses, a £2,381,000 credit (2021: £nil) in respect of the reversal of impairment of intercompany debtors and £148,000 (2021: £1,144,000) relates to the impairment of tangible assets on closure or assessment of stores.

The investment property was impacted in the prior year by an exceptional valuation decrease of £1,075,000.

6. Interest receivable and similar income

	2022 £'000	2021 £'000
Bank interest receivable	**25**	-
Group interest receivable	**116**	67
Other interest receivable	**-**	61
Total interest receivable and similar income	**141**	128

7. Interest payable and similar expenses

	2022 £'000	2021 £'000
Bank interest payable	**395**	446
Group interest payable	**916**	659
Total interest payable and similar expenses	**1,311**	1,105

8. Employee information

The aggregate staff costs were as follows:	**2022**	2021
	£'000	£'000
Wages and salaries	**28,571**	27,722
Social security costs	**3,515**	3,128
Other pension costs	**732**	756
	32,818	31,606

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

	2022	2021
	£'000	£'000
Operating expenses before exceptional items	**32,601**	29,955
Exceptional items	**217**	1,651
	32,818	31,606

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

By Activity	**2022**	2021
	Number	Number
Office and administration	**208**	216
Design	**156**	143
Production	**30**	33
Sales	**313**	312
Warehouse	**180**	156
	887	860

Other operating income represents government Covid related grants including job retention scheme income of £141,000 (2021: £2,838,000).

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 £145,000 at the balance sheet date (2021: £136,000).

9. Directors' remuneration

	2022	2021
	£'000	£'000
Aggregate remuneration	**904**	1,025

The number of directors who were members of money purchase pension schemes during the year was 3 (2021: 3). Aggregate emoluments include employer pension costs of £20,000 (2021: £20,000).

	2022	2021
Highest paid director:	**£'000**	£'000
Remuneration in respect of qualifying services	**439**	508

Pension contributions of £10,000 (2021: £10,000) is included in the above remuneration.

10. Tax on loss

(a) Tax credit included in profit or loss

	2022	2021
	£'000	£'000
Current Tax		
United Kingdom		
UK corporation tax on the loss for the year	-	-
Adjustments in respect of prior years	-	(1)
	-	(1)
Foreign Tax		
Corporation taxes	**57**	-
Total current tax	**57**	(1)
Deferred tax		
Origination and reversal of timing differences		
- Origination and reversal of timing differences	**(649)**	55
- Impact of change in rate	-	(134)
Total deferred tax (note 20)	**(649)**	(79)
Tax credit on loss	**(592)**	(80)

10. Tax on loss (continued)

(b) Tax expense included in other comprehensive income

	2022 £'000	2021 £'000
Deferred tax		
- Origination and reversal of timing differences	**82**	660
Total tax expense included in other comprehensive income	**82**	660

(c) Reconciliation of tax credit

The UK corporation tax assessed for the year is higher than (2021: higher than) the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	2022 £'000	2021 £'000
Loss before taxation	**(8,687)**	(25,358)
Loss before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	**(1,651)**	(4,818)
Effect of:		
Revaluation loss not deductible for corporation tax	**-**	204
Other expenses not deductible for tax purposes	**(154)**	691
Movement in deferred tax not recognised	**(1,096)**	1,959
Group relief not paid for	**2,145**	2,019
Impact of overseas tax rates	**57**	-
Differing deferred tax and corporate tax rates	**107**	-
Impact of change in UK tax rates	**-**	(134)
Adjustments in respect of prior years	**-**	(1)
Tax credit for the year	**(592)**	(80)

(d) Tax rate changes

Deferred tax balances at 30 June 2022 have been calculated using a rate of 25% (2021: 25%) as this is the enacted rate for the period over which the deferred tax balances are forecast to be utilised. In May 2021 the UK corporation tax rate was increased to 25% in the Finance Bill 2021, effective from April 2023. Deferred taxes at the balance sheet date have been measured using the enacted tax rate and reflected in these financial statements.

If a UK rate of 19% had been applied to deferred tax assets at 30 June 2022 they would be £208,000 lower.

11. Dividends

	2022	2021
	£'000	£'000
Dividend paid in the year of £nil per share (2021: £490.59 per share)	-	23,519

12. Intangible assets

	Computer Software
	£'000
Cost	
At 1 July 2021	12,173
Additions	15
At 30 June 2022	**12,188**
Accumulated amortisation	
At 1 July 2021	8,236
Charge for year	2,025
At 30 June 2022	**10,261**
Net book value	
At 30 June 2022	**1,927**
At 30 June 2021	3,937

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 2021	13,095	45,149	1,565	14,550	20,626	217	21,303	116,505
Additions	-	78	-	333	457	-	149	1,017
Revaluation in the year	45	-	-	-	-	-	-	45
Disposals	-	-	(536)	(4,341)	(6,484)	(70)	(4,969)	(16,400)
At 30 June 2022	**13,140**	**45,227**	**1,029**	**10,542**	**14,599**	**147**	**16,483**	**101,167**
Accumulated depreciation								
At 1 July 2021	-	7,057	1,403	12,108	18,728	188	20,662	60,146
Charge for year	-	791	29	563	613	14	351	2,361
Impairment in the year	-	-	19	104	25	-	-	148
Disposals	-	-	(528)	(4,370)	(6,475)	(70)	(4,953)	(16,396)
At 30 June 2022	**-**	**7,848**	**923**	**8,405**	**12,891**	**132**	**16,060**	**46,259**
Net book value								
At 30 June 2022	**13,140**	**37,379**	**106**	**2,137**	**1,708**	**15**	**423**	**54,908**
At 30 June 2021	13,095	38,092	162	2,442	1,898	29	641	56,359

Paul Smith Limited

Notes to the financial statements for the year ended 30 June 2022 (continued)

13. Tangible assets (continued)

Included within freehold property above is land with a net book value of £10,216,000 (2021: £10,216,000).

Investment property valuation basis

The investment properties are included at a market valuation as of 30 June 2022, prepared in accordance with RICS standards by Koopmans, an independent valuer.

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

	2022	2021
	£'000	£'000
Cost	**16,474**	16,474
Accumulated depreciation	**(2,345)**	(2,098)
Net book value	**14,129**	14,376

14. Investments

	Subsidiary undertakings £'000
Cost	
At 1 July 2021 and at 30 June 2022	**3,459**
Net book value	
At 30 June 2022 and 2021	**3,459**

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

Directly held:
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 1,000,000 fully paid ordinary shares of 1 HK$ each (2021: 1,000,000 shares of 1 HK$). 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.

Indirectly held:
Shanghai Paul Smith Business Services Company Ltd
The investment represents a 100% shareholding in Shanghai Paul Smith Business Services Company Ltd by Paul Smith (Asia Pacific) Limited, a Company incorporated in China and its registered office is at room 3190, Building 3, No.40 Wenshui Road, Jing'an District, Shanghai. The Company operates retail outlets selling goods produced by Paul Smith Limited.

15. Stocks

	2022	2021
	£'000	£'000
Raw materials and WIP	**6,141**	6,027
Finished goods and goods for resale	**34,275**	36,898
	40,416	42,925

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 £10,927,000 (2021: £3,984,000).

16. Debtors

	2022	2021
Amounts falling due within one year:	**£'000**	£'000
Trade debtors	**7,307**	6,301
Amounts owed by group undertakings	**34,365**	29,968
Corporation tax	**610**	635
Other debtors	**2,934**	3,235
Derivative financial instruments (note 23)	**680**	144
Deferred taxation (see note 20)	**417**	559
Prepayments and accrued income	**7,123**	4,540
	53,436	45,382
Amounts falling due after more than one year:		
Deferred taxation (see note 20)	**709**	-
	54,145	45,382

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 £12,000 (2021: £16,000).

17. Current asset investments

Current asset investments represent cash of £19,129,000 held in deposit accounts with withdrawal terms (2021: £15,010,000).

18. Creditors

Amounts falling due within one year:	2022 £'000	2021 £'000
Bank loans and overdrafts (see below)	**2,204**	2,197
Trade creditors	**20,089**	13,863
Amounts owed to group undertakings	**107,290**	100,368
Other creditors	**3,240**	2,948
Taxation and social security	**3,808**	3,384
Derivative financial instruments (note 23)	**115**	-
Accruals and deferred income	**4,078**	3,696
	140,824	126,456

Amounts falling due after one year:		
Bank loans and overdrafts (see below)	**11,468**	13,657

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 payable, which is unsecured and repayable on demand.

Bank loans of £4,639,000 and £699,000 (2021: £5,764,000 and £1,070,000) are repayable in equal monthly instalments over 7 years with all due in less than five years. They bear interest at a fixed rate of 1.55% and 1.3% respectively and are secured on the property 70 Rue des Archives.

A bank loan of £8,333,000 (2021: £9,000,000) is repayable by quarterly instalments of £167,000 over 5 years and the remainder in a bullet at the end. It bears interest at 2.5% over LIBOR and is secured by a fixed and floating charges over the main UK office and warehouse property, associated plant and equipment.

Included in other creditors is £2,138,000 (2020: £2,318,000) relating to loans due to the directors of the Company. There is no fixed repayment schedule for the loans.

19. Provisions for liabilities

	Onerous lease £'000	Sales returns £'000	Other £'000	Total £'000
At 1 July 2021	1,496	1,359	644	3,499
Utilised in the year	(1,074)	(1,359)	-	(2,433)
Foreign exchange movement in year	-	-	1	1
Additions	358	1,391	-	1,749
At 30 June 2022	**780**	**1,391**	**645**	**2,816**

Onerous lease provision: the company assesses the performance of each of the stores and provides an estimate of future losses for the remaining period of the lease, which is typically three to four years.

Sales returns provision: the company estimates the proportion of sales that are likely to result in a return requiring a customer credit and provides for these on sale. In estimating these it makes use of recent historical experience and applicable post balance sheet data.

Other provisions: this represents the best estimates of legal obligations relating to claims made against the company expected to be settled within the next two years.

20. Deferred taxation

The deferred tax asset is analysed as follows:

	£'000
Balance at 1 July 2020	**1,140**
Amount credited to income statement	79
Amount charged to statement of comprehensive income (note 10)	(660)
Balance as at 30 June 2021	**559**
Amount credited to the income statement	649
Amount charged to statement of comprehensive income (note 10)	(82)
Balance at 30 June 2022	**1,126**

The deferred tax asset recognised relates to the following:

	2022 £'000	2021 £'000
Hedged derivative fair values	**(107)**	**(25)**
Losses carried forward	**1,233**	**584**
	1,126	**559**

There is also an unrecognised deferred tax asset of £1,467,000 (2021: £3,621,000) in respect of capital allowances, further trading losses and other timing differences.

21. Share capital and other reserves

Allotted, issued and fully paid	**2022** **£'000**	2021 £'000
47,940 (2021: 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. The revaluation of investment properties in excess of cost is not distributable. However as disclosed in note 13 the carrying value is below historic cost at the balance sheet date.

22. 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:

Payment due	**2022** **£'000**	2021 £'000
Not later than one year	**7,314**	7,865
Later than one year and not later than five years	**19,599**	23,497
Later than five years	**5,793**	9,465
	32,706	40,827

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.

23. Financial instruments

The company has the following financial instruments measured at fair value through profit or loss:

	Note	**2022**	2021
		£'000	£'000
Financial assets/(liabilities) measured at fair value through profit or loss			
Derivative financial instrument assets	16	**680**	144
Derivative financial instrument liabilities	18	**(115)**	-

Derivative financial instruments – forward contracts

The Company enters into forward foreign currency contracts to mitigate foreign exchange rate risk. £nil of the derivative asset was not a cash flow hedge (2021: £13,000). All other contracts relate to cash flow hedges in place to hedge exposure to foreign currency revenue, with gains or losses made on settlement, where effective, being recycled to revenue. At 30 June 2022, the outstanding contracts all mature within 16 months (2021: 28 months) of the year end. The Company is committed to sell Japanese a net ¥1,050,000,000,000 at a fixed sterling amount (2021: to sell Japanese ¥3,000,000,000).

The forward currency contracts are measured at fair value which is calculated using observable market price (level 2).

The cashflow hedge reserve of £458,000 (2021: £106,000) reflects a net fair value asset of £565,000 (2021: asset of £131,000) net of the related deferred tax liability of £107,000 (2021: £25,000).

24. Related party transactions

During the year the Company paid £1,937,000 (2021: £1,983,000) 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 2022 the Company owed Colston Property Partners Limited £nil (2021: £23,000).

During the year the Company paid £175,000 (2021: £155,000) 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 2022 the Company owed the Paul Smith Limited Executive Pension Scheme £nil (2021: £nil).

The company has made pension payments of £201,000 (2021: £201,000) to a former director and received the same amount from the related pension fund. There is £nil (2021: £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 £5,254,000 (2021: £5,257,000) was received by Paul Smith Limited in the year to 30 June 2022. At 30 June 2022 Itochu Corporation owed Paul Smith Limited £525,000 in respect of royalty and advertising (2021: £182,000).

During the year Paul Smith Limited made trade sales of £807,000 (2021: £899,000) in the ordinary course of business to Itochu Corporation and purchased £152,000 (2021: £9,000) from Itochu Corporation. At 30 June 2022 the net amount owed by Itochu Corporation to Paul Smith Limited in respect of these transactions was £326,000 (2021: £75,000).

24. Related party transactions (continued)

During the year Paul Smith Limited made trade purchases of £nil (2021: £nil) and trade sales of £375,000 (2021: £405,000) in the ordinary course of business from / to entities which are part of the Itochu Corporation. At 30 June 2022 the net amount receivable by Paul Smith Limited in respect of these transactions was £36,000 (2021: £104,000).

Included in other creditors is £2,138,000 relating to loans due to the directors of the Company (2021: £2,138,000). There is no fixed repayment schedule for the loans.

25. 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.