PENTLAND CHAUSSURES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Registered number: 01786360

PENTLAND CHAUSSURES LIMITED

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Strategic Report for the year ended 31 December 2018

The directors present their strategic report on the company for the year ended 31 December 2018.

Review of the business

Effective from 1 January 2018, Pentland Group Plc entered into a joint venture agreement with Procastor Holding S.A. Pentland Chaussures Limited is now the ongoing entity for this joint venture. The company's principal activity during the year was the design, development, manufacturing and supply of footwear.

Performance and KPIs

The company performed in line with expectations and saw growth in most regions. This growth fuelled recovery in a number of key markets off the back of a decline in recent years due to political and economic challenges in these markets. The directors remain confident that further growth can be achieved across all regions.

The company's profit for the financial year is $33.6 million (2017: $33.7 million) and is shown in the profit and loss account on page 9.

- The company's net assets as at 31 December 2018 were $57.9m (2017: $34.3m)
- Dividends of $10m were declared during the year (2017: $16.2m paid)
- Profit attributable to shareholders was $33.6m (2017: $33.7m)

A combination of the growth described above and the effects of the joint venture agreement led to:

- total turnover increasing by $34.6m (15%)
- overheads reducing from $52.5m to $17.5m
- operating profit before exceptional items rising to $41.3m (2017: $27.0m)
- the net cash position at the year-end increasing to $22.1m (2017: $7.3m).

Principal risks and uncertainties

The principal risks of the company are assessed below:

Dependency on brand performance

The company's principal activity is the design, development, manufacturing and supply of footwear which is licensed solely under the Lacoste brand. As this is the only brand sold by the company, there is an increased reliance on the strength of the brand and being desirable to customers.

This risk is mitigated through creating highly desirable product that not only drives demand but also meets the Lacoste brand vision.

Supply Chain risk

The company sources product from a variety of suppliers based primarily in Asia and is exposed to the risks associated with international trade.

The company mitigates this risk by working closely with these suppliers and, through our sourcing agent, ensures that all product undergoes rigorous quality and compliance checks to satisfy stringent laws and regulations including, but not limited to, health and safety, packaging and labelling. This process is end-to-end from initial selection of suppliers through to after-sales support.

Economic and political factors

The company is exposed to economic and political factors which impact demand in the various markets we trade with. These primarily include taxation, disposable incomes, currency fluctuations and broader economic and government policies affecting areas such as importation.

The company mitigates this risk by offering highly desirable and appropriately priced product. Diversified sourcing options are also currently being explored in some regions to achieve this.

Currency risk

Pentland Chaussures Limited is a company reporting in US dollars. The company both purchases footwear product and sells to distributors all over the world in US dollars, retaining receipts in US dollars.

Distributors who do not trade in US dollars face an exposure and fluctuations can impact demand.

The company itself is exposed to fluctuations in foreign exchange rates, primarily US dollar: sterling due to almost all operating expenses taking place in sterling.

With the support of Pentland Group Plc Treasury, this risk is mitigated through a hedging program using forward contracts. This provides certainty for what are predominantly fixed costs.

Seasonality

The company's operating model is seasonal in line with range planning and therefore results in peaks and troughs in working capital requirements throughout the year.

Regular, robust forecasting is used to manage this risk.

Personnel

Given the sometimes-specialised nature of the company's operations, success is partly dependent on the ability to attract, develop and retain appropriately qualified employees.

The company offers competitive reward packages for all staff which includes relevant and high-quality training programs; designed to motivate and develop, regardless of role. Succession planning for key roles is also at the forefront of mitigating this risk.

The company is open about roles and offers 360-degree support throughout the colleague life-cycle, meaning we support our colleagues in their decisions both to progress within and also to exit the organisation, deploying them to help in finding their replacement whist offering assistance in their search for new opportunities both internally and externally.

By order of the board

N. Conway

N Conway
Company Secretary
Date: 10 September 2019

PENTLAND CHAUSSURES LIMITED

Directors' Report for the year ended 31 December 2018

The directors present their report and the audited financial statements of the company for the year ended 31 December 2018.

Dividends

Details of dividends paid are included on page 2 (Strategic Report).

Financial instruments

Flows which are denominated in a foreign currency present risk and uncertainty as to the value of these flows in an entity's functional currency. With the support of Pentland Group Plc Treasury, the company hedges its exposure to US dollar/sterling through forward contracts. Details of these financial instruments are included on page 28.

Directors

The following directors who held office during the year and up to the date of signing the financial statements were:

A M Long
R J Newcombe
A K Rubin (resigned 3 January 2018)
P M Webber (resigned 3 January 2018)
D M Lamoureux (appointed 3 January 2018)
P Pastor (appointed 3 January 2018)
T E Cullen (appointed 3 January 2018)
T L Guibert (appointed 3 January 2018)

Employee policies

The company keeps its colleagues informed of all developments and activities across the business with various forms of communication ranging from an all-hands Quarterly Business Review (QBR) to ad-hoc memos to the total population or specific, targeted groups as appropriate. All policies were aligned to those of the Pentland Group Plc on the initial creation of the Joint Venture and several have been amended and introduced to suit the development of the business throughout 2018. All policy changes are communicated to managers initially and then to colleagues in addition to being permanently hosted on the all-access intranet site with links provided for ease of access.

Pentland Chaussures Limited's policy is to recruit, develop and promote people purely on their aptitude and ability. We are determined to ensure that no applicant or employee receives less favourable treatment. Disabled people are given equal opportunities in recruitment, promotion and career development. Wherever possible this applies to anyone who becomes disabled whilst in our employment.

Directors' Report for the year ended 31 December 2018 (continued)

Statement of directors' responsibilities

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

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Disclosure of information to auditors

As far as the directors are aware, there is no relevant audit information, being information required by the auditors in connection with the preparation of the auditors' report, of which the auditors are unaware. Having made enquiries of fellow directors and the group auditors, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent auditors

New independent auditors Ernst & Young LLP were appointed on 17 July 2018 by agreement of the board, subject to receipt of an appropriate resignation letter from the Company's current auditors, Pricewaterhouse Coopers LLP. A resignation letter was received from Pricewaterhouse Coopers LLP on 13 September 2018.

By order of the board

N Conway

N Conway
Company Secretary
Date: 10 September 2019

Independent auditors' report to the members of Pentland Chaussures Limited

Opinion

We have audited the financial statements of Pentland Chaussures Limited for the year ended 31 December 2018 which comprise the Profit and Loss Account, Statement of comprehensive income, Balance Sheet, Statement of changes in equity, Statement of cashflows and the related notes 1 to 21, 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 FRS 102 "The Financial Reporting Standard applicable in the UK" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit 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.

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 below. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

Independent auditors' report to the members of Pentland Chaussures Limited (continued)

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 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 directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

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

Independent auditors' report to the members of Pentland Chaussures Limited (continued)

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.

Ernst & Young LLP

Gordon Cullen (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date: 12 September 2019

Financial statements for the year ended 31 December 2018

Profit and loss account

All amounts in USD$m	Note	2018 Continuing operations	2018 Discontinued operations	2018 Total	2017 Continuing operations	2017 Discontinued operations	2017 Total
Turnover	5	266.7	-	**266.7**	170.5	61.6	**232.1**
Cost of sales		(207.9)	-	**(207.9)**	(109.2)	(43.4)	**(152.6)**
Gross profit		58.8	-	**58.8**	61.3	18.2	**79.5**
Distribution costs		(0.9)	-	**(0.9)**	(2.6)	(7.8)	**(10.4)**
Administrative expenses		(16.6)	-	**(16.6)**	(38.4)	(3.7)	**(42.1)**
Operating profit before exceptional items		41.3	-	**41.3**	20.3	6.7	**27.0**
Exceptional gain	6	-	-	-	10.0	-	**10.0**
Operating profit	6	41.3	-	**41.3**	30.3	6.7	**37.0**
Profit on ordinary activities before investment income, interest and taxation	6	41.3	-	**41.3**	30.3	6.7	**37.0**
Unrealised losses on derivative financial instruments		(0.1)	-	**(0.1)**	-	-	-
Interest receivable		0.3	-	**0.3**	-	-	-
Profit before taxation		41.5	-	**41.5**	30.3	6.7	**37.0**
Tax charge on profit on ordinary activities	8	(7.9)	-	**(7.9)**	(2.6)	(0.7)	**(3.3)**
Profit for the financial year		33.6	-	**33.6**	27.7	6.0	**33.7**

Financial statements for the year ended 31 December 2018 (continued)

Statement of comprehensive income

All amounts in USD$m	Year ended 31 December					
	2018			2017		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Profit for the financial year	33.6	-	**33.6**	27.7	6.0	**33.7**
Other comprehensive (loss)/income	-	-	-	-	-	-
Currency translation differences	-	-	-	1.6	(0.6)	**1.0**
Other comprehensive (loss)/income for the year, net of tax	-	-	-	**1.6**	**(0.6)**	**1.0**
Total comprehensive income for the year	33.6	-	**33.6**	29.3	5.4	**34.7**

Financial statements for the year ended 31 December 2018 (continued)

Balance Sheet

All amounts in USD$m	Note	As at 31 December 2018	2017
Fixed assets			
Tangible assets	10	**0.6**	0.3
		0.6	0.3
Current assets			
Inventories	11	**4.8**	0.0
Deferred tax asset	12	**0.6**	0.6
Debtors	13	**87.4**	59.4
Cash at bank and in hand		**22.1**	7.3
		114.9	67.3
Creditors: amounts falling due within one year	14	**(57.6)**	(33.3)
Net current assets		**57.3**	34.0
Total assets less current liabilities		**57.9**	34.3
Net assets		**57.9**	34.3
Capital and reserves			
Called up share capital	15	**0.0**	0.0
Retained earnings		**57.9**	34.3
Total equity		**57.9**	34.3

The notes on pages 14 to 31 are an integral part of these financial statements.

The financial statements on pages 9 to 13 were authorised for issue by the board of directors on and signed on its behalf by:

A M Long
Director
Pentland Chaussures Limited
Registered number: 01786360

Financial statements for the year ended 31 December 2018 (continued)

Statement of changes in equity for the year ended 31 December 2018

All amounts in USD$m

	Notes	Called up share capital	Retained earnings	Total equity
Balance as at 1 January 2017		0.0	15.8	15.8
Profit for the financial year		-	33.7	33.7
Other comprehensive gain for the year		-	1.0	1.0
Total comprehensive income for the year		-	34.7	34.7
Dividends	9	-	(16.2)	(16.2)
Total transactions with owners, recognised directly in equity		-	(16.2)	(16.2)
Balance as at 31 December 2017		0.0	34.3	34.3
Balance as at 1 January 2018		**0.0**	**34.3**	**34.3**
Profit for the financial year		-	**33.6**	**33.6**
Other comprehensive (loss)/income for the year		-	-	-
Total comprehensive income for the year		-	**33.6**	**33.6**
Dividends	9	-	**(10.0)**	**(10.0)**
Total transactions with owners, recognised directly in equity		-	**(10.0)**	**(10.0)**
Balance as at 31 December 2018		**0.0**	**57.9**	**57.9**

Financial statements for the year ended 31 December 2018 (continued)

Statement of cashflows for the year ended 31 December 2018

All amounts in USD$m	Note	2018	2017
Net cash from operating activities	17	21.2	41.0
Taxation paid		(3.4)	(0.8)
Net cash generated from operating activities		17.8	40.2
Cashflow from investing activities			
Interest received		0.3	-
Purchase of tangible assets	10	(1.0)	(0.7)
Payments and cash movements in relation to transfer of assets		-	(6.0)
Net cash used in investing activities		(0.7)	(6.7)
Cashflow from financing activities			
Equity dividends paid to shareholders	9	(5.0)	(16.2)
New/repayment of borrowings		2.6	-
Net cash used in financing activities		(2.4)	(16.2)
Net increase in cash and cash equivalents		14.7	17.3
Cash and cash equivalents at the start of the year		7.3	(11.4)
Exchange gains on cash and cash equivalents		0.1	1.4
Cash and cash equivalents at the end of the year		22.1	7.3

Cash and cash equivalents consists of:

Cash at bank and in hand	22.1	7.3
Cash and cash equivalents at the end of the year	22.1	7.3

Notes to the financial statements

1 General information

Pentland Chaussures Limited is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is 8 Manchester Square, London, W1U 3PH.

The company's principal activity during the year was the design, development, manufacturing and supply of footwear.

2 Statement of compliance

The individual financial statements of Pentland Chaussures 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.

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 4.

(b) Foreign currency

(i) Functional and presentational currency

The functional currency for the company changed from pounds sterling to United States dollars on 1 January 2018.

The reason for this change was due to the company no longer being wholly owned by Pentland Group Plc which therefore changed the currency of activities in a number of areas:

- currency in which costs of providing goods or services are denominated and settled
- currency in which receipts from operating activities are retained in

The presentation currency has also changed to align with the functional currency as this more appropriately reflects the underlying performance. The change in presentation currency is a voluntary change in accounting policy. The change in presentation currency has been applied retrospectively and therefore the prior year comparatives have all been restated in USD. Balance sheet items have been translated at the closing spot rate and P&L items have been translated at the average exchange rate for the comparative period.

(ii) Transactions and balances

Transactions in foreign currencies during the year are translated at the relevant monthly exchange rate on the transaction date.

3 Summary of significant accounting policies (continued)

(b) Foreign currency (continued)

At each period-end foreign currency monetary items are translated using the closing spot 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 profit and loss account.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and all other foreign exchange gains or losses are presented in the profit and loss account.

(c) Turnover

Turnover comprises the value of external sales on stock, net of trade discounts, credits and excluding sales-related taxes.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied, net of discounts allowed by the company and value-added taxes. Volume discounts are assessed on annual purchases.

The company recognises revenue when the significant risks and rewards of ownership have been transferred:

- Sale of goods – free on board (FOB)

  The company manufactures and sells a range of footwear products to distributors on an FOB basis. Sales of goods are recognised once the goods are on board the vessel. At this point, ownership and the risks of obsolescence or loss are transferred fully to the buyer.

- Sale of goods – UK importation

  The company manufactures and sells a range of footwear products to four distributors. Sale of goods are recognised once delivered to a named place nominated by the buyer with applicable importation taxes and charges paid. At this point, ownership and the risks of obsolescence or loss are transferred fully to the buyer.

- Sale of goods – wholesale

  In the prior year, the company recognised sale of goods on delivery to the wholesaler. The wholesaler had full discretion over the channel and price to sell the product. Delivery occurred when the goods had been shipped to the location specified by the wholesaler, the risks of obsolescence or loss were transferred to the wholesaler and the wholesaler had accepted the products in accordance with the sales contract.

  Goods sold to wholesalers were often sold with volume rebates and also with the provision for the wholesale customer to return faulty goods.

Provisions are made for credit notes based on the expected level of claims on the basis of historical experience.

3 Summary of significant accounting policies (continued)

(d) Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements, defined contribution pension plans and, in the prior year, defined benefit 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) Retirement benefits

The company's employees are all eligible for defined contribution pension schemes or in the prior year, defined benefit pension schemes.

The total expense recognised in the profit and loss account in relation to pensions represents the actual contribution paid into the defined contribution scheme on behalf of employees. Contributions made during the year can be found in Note 6 of the financial statements.

(iii) Annual bonus plan

The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

(e) Taxation

Taxation expense for the year comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, 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 shareholders' funds, 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 in the countries where the company operates and generates taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(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.

3 Summary of significant accounting policies (continued)

(f) Tangible assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

Footwear moulds, plant equipment and vehicles; and fixtures and fittings.

Footwear moulds, plant equipment and vehicles; and fixtures and fittings are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

Depreciation and residual values

Footwear moulds	1 year
Plant equipment and vehicles	3 years
Fixtures and fittings	3 years

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.

Derecognition

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 'Other operating (losses)/gains'.

(g) 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.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(h) Inventories

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

Cost includes the actual purchase price, and any applicable taxes and duties, and transport and handling directly attributable to bringing the inventory to its present location and condition.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the profit and loss account.

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 profit and loss account.

3 Summary of significant accounting policies (continued)

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within creditors in current liabilities.

(j) Financial instruments

(i) Financial assets and liabilities

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

All financial assets and liabilities are measured at transaction price (including transaction costs) except for those financial assets classified as at fair value through profit or loss which are initially measured at estimated fair value and subsequently measured at fair value.

(ii) Derivative financial instruments

The company is exposed to foreign currency risk on operating expenses in a currency other than US dollars. The principal currency which gives rise to this risk is pound sterling.

The company uses forward currency contracts to reduce exposure to exchange rates. Derivative financial instruments are initially measured at fair value on the date on which a contract is entered into and are subsequently measured at fair value through profit and loss. The estimated fair value of the forward contract is calculated by reference to the forward exchange rates at the balance sheet date, discounted to provide the present value.

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Distributions to equity holders

Dividends and other distributions to company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

(m) Related party transactions

As the company is no longer wholly owned, it discloses transactions with members of Pentland Group Plc and Maus Freres S.A. as per FRS 102.

4 Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Inventory provisioning

The company designs and sells footwear and is therefore subject to changing consumer demands and fashion trends. As a result, it is necessary to consider the recoverability of the cost 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. See note 11 for the net carrying amount of the inventory and associated provision.

(ii) Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 13 for the net carrying amount of the debtors and associated impairment provision.

5 Turnover

Analysis of turnover by geography:

	2018 $m	2017 $m
United Kingdom	**35.4**	35.8
Continental Europe and Ireland	**91.4**	98.1
Americas	**62.6**	37.2
Asia-Pacific	**54.1**	43.1
Rest of the World	**23.2**	17.9
	266.7	232.1

Analysis of turnover by category:

	2018 $m	2017 $m
Sales of goods	**266.7**	232.1

6 Operating profit

Operating profit is stated after charge/(crediting):

	2018 $m	2017 $m
Wages and salaries	**5.3**	8.2
Social security costs	**0.6**	0.8
Other pension costs	**0.2**	0.4
Staff costs	**6.1**	9.4
Depreciation of tangible fixed assets	**0.7**	0.8
Operating lease charges:		
hire of plant and machinery	-	0.1
land and building	-	0.3
Exceptional gain	-	(10.0)
Foreign exchange differences	**(0.4)**	5.0

Staff costs included $951k for compensation to Key Management Personnel (2017: $0k). In addition, management fees totalling $194k were paid for Key Management Personnel services during the year (2017: $1,413k).

The company's audit fee was **$60k** (2017: $64k).

Fees payable to the auditors for non-audit services amounted to **$16k** (2017: $28k).

Non-audit services relate to tax compliance **$3k** (2017: $20k) and **$13k** (2017: $8k) relates to tax advice.

The exceptional gain in 2017 relates to the forgiveness of an intercompany amount owed to Pentland Group Plc by Pentland Chaussures Limited.

7 Employees and directors

Employees

The average monthly number of persons employed by the company including directors during the year was:

	2018 Number	2017 Number
Management and administration	8	11
Product design and development	43	49
Selling and distribution	10	43
	61	103

Directors' emoluments

The directors' emoluments were as follows:

	2018 $m	2017 $m
Aggregate emoluments	-	0.8
Company contribution to money purchase schemes	-	-
	-	0.8

Highest paid director

The highest paid director's emoluments were as follows:

	2018 $m	2017 $m
Emoluments excluding pension contributions	-	0.5
Contributions paid to the money purchase scheme	-	-
Defined benefit pension scheme:		
- Accrued pension at the end of the year	-	-
	-	0.5
Number of directors under the defined benefit scheme	-	2
Number of directors receiving contributions to the money purchase scheme	-	2

No remuneration was paid or is payable to the director in his capacity as director or the Company (2017: $794k). $205k was recharged by a fellow group company in respect of services rendered by the directors to the Company and its parent undertaking, Pentland Group Plc.

8 Tax on profit on ordinary activities

	2018 $m	2017 $m
UK - current corporation tax at 19% (2017: 19.25%)	**7.9**	2.6
Adjustment in respect of prior years	-	(0.4)
Foreign tax relief / other relief	**(0.1)**	-
Foreign tax suffered	**0.1**	1.0
Total current tax charge	**7.9**	3.2
Deferred tax	**(0.0)**	0.1
Tax charge on profit on ordinary activities	**7.9**	3.3

Reconciliation of tax charges:

The tax assessed for the year is higher (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 $m	2017 $m
Profit on ordinary activities before taxation	**41.5**	37.0
Profit on ordinary activities multiplied by the average rate in the UK of 19% (2017: 19.25%)	**7.9**	7.1
Effects of:		
Non-taxable intercompany loan release	-	(1.9)
Adjustment in respect of prior year	**0.0**	(0.4)
Effect of overseas tax rates	-	0.3
Tax rate impact	**(0.0)**	-
Other timing differences	-	0.1
Group relief claimed for nil consideration	-	(1.9)
Total tax charge for the year	**7.9**	3.3

The main rate of corporation tax in the UK reduced from 20% to 19% with effect from 1 April 2017. Accordingly, the company's profits for the accounting year to 31 December 2018 were taxed at an effective rate of 19%. A further rate reduction to 17% effective from 1 April 2020 has been enacted and therefore any relevant deferred tax balances at the balance sheet date have been measured at that rate.

9 Dividends

	2018 $m	2017 $m
Dividend declared and paid for the year ended 31 December 2018 of $5,000 (2017: $16,212) per $1 ordinary A and ordinary B share	**5.0**	16.2
Dividend payable for the year end 31 December 2018 of $5,000 per $1 ordinary A and ordinary B share	**5.0**	-
	10.0	**16.2**

10 Tangible assets

All amounts in USD$m

	Footwear moulds	Fixtures and fittings	Computer equipment	Total
Cost				
Opening balance	9.1	0.4	0.0	9.5
Additions	0.9	-	0.1	1.0
Disposals	-	-	-	-
As at 31 December 2018	10.0	0.4	0.1	10.5
Accumulated Depreciation				
Accumulated Depreciation	(8.8)	(0.4)	(0.0)	(9.2)
Disposals	-	-	-	-
Depreciation	(0.7)	(0.0)	(0.0)	(0.7)
Closing net book amount	(9.5)	(0.4)	(0.0)	(9.9)
Net Book Value				
As at 31 December 2018	0.5	0.0	0.1	0.6
As at 31 December 2017	0.3	0.0	0.0	0.3

11 Inventories

	2018 $m	2017 $m
Finished goods and goods held for resale	4.8	0.0

11 Inventories (continued)

There is no significant difference between the replacement costs of inventory and its carrying amount.

Inventories are stated after provisions for impairment of $0 (2017: $0).

The large increase in inventory in the current year is a result of the Company importing goods into the UK for sale under the UK Importation Revenue recognition method described in Note 3 (c).

12 Deferred tax asset

The full potential deferred taxation asset, which has been recognised in 2017 and 2018 is as follows:

	2018 $m	2017 $m
Accelerated capital allowances	**0.6**	0.6
Other timing differences	-	-
	0.6	0.6

The directors of Pentland Chaussures Limited consider that there is sufficient certainty that there will be taxable profits in the foreseeable future for the joint venture and therefore an asset has been recognised in these financial statements.

13 Debtors

	2018 $m	2017 $m
Trade debtors	**9.2**	39.7
Amounts owed by group undertakings	-	18.6
Amounts owed by fellow subsidiary undertakings	**73.4**	-
Corporation tax	**4.3**	1.0
Other debtors	**0.1**	0.0
Prepayments and accrued income	**0.4**	0.0
Other taxation and social security	-	0.1
	87.4	59.4

Trade debtors are stated after provisions for impairment of $151k (2017: $159k).

Amounts owed by fellow subsidiary undertakings are unsecured, interest free and have no fixed date of repayment and are due on demand.

14 Creditors

Amounts falling due within 1 year	2018 $m	2017 $m
Trade creditors	1.0	1.7
Amounts owed to fellow subsidiary undertakings	20.9	19.6
Amounts owed to the parent undertakings	5.0	-
Current taxation	7.9	-
Other taxation and social security	1.2	-
Accruals and deferred income	18.9	12.0
Derivative Financial instruments	0.1	-
Loans payable to fellow subsidiary undertaking	2.6	-
	57.6	33.3

Amounts owed to fellow undertakings are unsecured, interest-free, are repayable on demand and have no fixed repayment date.

Loans payable to fellow subsidiary undertaking is unsecured, interest free and has no fixed repayment date

15 Called up share capital

Allotted and fully paid	2018 $	2017 $
500 'A' (2017: 500) ordinary shares of £1 each	673	673
500 'B' (2017: 500) ordinary shares of £1 each	673	673
At 31 December	1,346	1,346

The 'A' ordinary shares and 'B' ordinary shares rank pari-passu in rights to dividends, amounts receivable on winding up of the company and voting rights of Pentland Chaussures Limited.

Notes to the financial statements (continued)

16 Capital and other commitments

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following years:

Payments due	2018 $m	2017 $m
Not later than one year	-	0.1
Later than one year and not later than five years	-	-
Later than five years	-	-
	-	0.1

The company had no other off-balance sheet arrangements.

There are no commitments in the current year as a result of transfer of operating leases following disposal of the German branch on 1st January 2018.

17 Net cash from operating activities

All amounts in USD$m	**2018**	2017
Profit for the financial year	**33.6**	33.7
Adjustments for:		
Tax on profit	**7.9**	3.3
Unrealised losses/(gains) on derivative financial instruments	**0.1**	-
Interest Received	**(0.3)**	-
Operating Profit	**41.3**	37.0
Depreciation	**0.7**	0.8
Increase in inventory	**(4.8)**	(5.4)
Increase in debtors	**(24.6)**	6.5
Increase in creditors	**9.0**	(2.9)
Foreign exchange movement	**(0.4)**	5.0
Net cash from operating activities	**21.2**	**41.0**

18 Financial instruments

All amounts in USD$m	**Note**	**2018**	2017
Financial Assets that are debt instruments measured at amortised cost:			
Trade debtors	13	**9.2**	39.7
Amounts owed by group undertakings	13	**-**	18.6
Amounts owed by fellow subsidiary undertakings	13	**73.4**	-
Other debtors	13	**0.1**	0.0
		82.7	58.3
Financial liabilities at fair value through profit and loss:			
Financial derivative instruments	14	**0.1**	-
		0.1	-
Financial liabilities measured at amortised cost:			
Trade creditors	14	**1.0**	1.7
Amounts owed to fellow subsidiary undertakings	14	**20.9**	19.6
Amounts owed to the parent undertakings	14	**5.0**	-
Accruals and deferred income	14	**18.9**	12.0
Loans payable to fellow subsidiary undertaking	14	**2.6**	-
		48.4	33.3

Derivative financial instruments

The company enters into forward currency contracts to mitigate exposure to foreign exchange risk. On 31 December 2018, the outstanding contracts matured within 11 months of the year end.

As of 31 December 2018, the company was committed to buy £17.7m against a fixed US dollar amount (2017: nil).

Fair value is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the forward exchange rates for USD:GBP.

The fair value of the foreign exchange derivative contracts was a liability of $0.1m (2017: nil). The unrealised fair value gains/losses arising from the foreign exchange contracts taken to the profit and loss account for the period was a loss of $0.1m (2017: nil).

19 Related party transactions

During the year, the company entered into transactions in the ordinary course of business with other related parties. Transactions entered into and trading balances outstanding as at 31 December are as follows:

All amounts in USD$m

	Sales to related party		Purchases from related party		Amounts owed from related party		Amounts owed to related party	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Entities which have joint control or significant influence:								
Pentland Group Plc.	-	-	-	-	-	-	**2.5**	-
Procastor Holding S.A.	-	-	-	-	-	-	**2.5**	-
Other related parties:								
Asco General Supplies (Far East) Ltd.	-	-	**187.9**	-	**0.0**	-	**20.7**	-
Boxfresh International Ltd.	**0.0**	-	-	-	-	-	-	-
Devanlay Mexico S.A. De CV	**10.4**	-	**0.0**	-	**0.0**	-	-	-
Devanlay Panama Inc.	**0.0**	-	-	-	**3.1**	-	-	-
Devanlay Polska Sp. ZOO	**0.6**	-	-	-	**0.4**	-	-	-
Devanlay Ventures Do. Brasil. Imp. Exp E Participacoes Ltda.	**4.4**	-	**0.0**	-	**2.2**	-	-	-
Dong-Il Devanlay, Inc.	**17.3**	-	**0.0**	-	**5.6**	-	-	-
Erde Pazarlama A.S.	**5.8**	-	-	-	**2.2**	-	-	-
JD Sports Fashion Plc	-	17.7	-	-	-	-	-	-
Lacoste Alligator S.A.	-	-	**3.7**	-	-	-	**1.6**	-
Lacoste Canada, Inc.	**5.4**	-	**0.0**	-	**2.7**	-	-	-
Lacoste Footwear France S.A.S.	**24.5**	-	**0.0**	-	**9.8**	-	-	-
Lacoste Germany GmbH	**18.8**	-	**0.0**	-	**10.2**	-	-	-
Lacoste Iberica S.A.	**4.4**	-	**0.0**	-	-	-	-	-
Lacoste Japan Co., Ltd.	**3.5**	-	-	-	**0.6**	-	-	-
Lacoste Operations S.A.	**4.2**	-	**1.7**	-	**3.6**	-	**3.8**	-
Lacoste Portugal, Soc. Unip., Lda.	**2.0**	-	**0.0**	-	**1.0**	-	-	-
Lacoste S.A.	**0.1**	-	**19.4**	-	-	-	**8.0**	-
Lacoste Switzerland	**2.1**	-	**0.0**	-	**1.0**	-	-	-
Lacoste USA, New York	**32.4**	-	-	-	**7.9**	-	**0.0**	-
LLC Retek	**1.1**	-	**0.0**	-	**0.5**	-	-	-
Lode LLC	**8.6**	-	-	-	**4.3**	-	-	-
Montaigne Garments (Shanghai) Co., Ltd.	**7.6**	-	**0.0**	-	**4.8**	-	-	-

19 Related party transactions (continued)

All amounts in USD$m

	Sales to related party		Purchases from related party		Amounts owed from related party		Amounts owed to related party	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Montaigne Hong Kong Ltd.	**0.1**	-	-	-	**0.1**	-	-	-
Muvral Company S.A.	**0.1**	-	-	-	**0.0**	-	-	-
NL Diffusion B.V.	**4.6**	-	**0.0**	-	**2.2**	-	-	-
P. B. Distribution (UK) Ltd.	**39.0**	-	-	-	**7.9**	-	**0.0**	-
Pentland Brands Limited	-	-	**21.1**	-	-	-	**4.9**	-
Pentland USA, Inc.	-	-	**0.2**	-	-	-	**0.0**	-
Sidas SPA	**1.7**	-	-	-	**0.6**	-	-	-
Sporloisirs S.A.	-	-	**3.1**	-	-	-	**1.2**	-
Vesuvio Comercial Y Textil Chile Limitada	**1.0**	-	-	-	**0.7**	-	-	-
Vesuvio Sacifei	**3.3**	-	-	-	**2.0**	-	-	-

Outstanding balances from related parties are unsecured, interest-free and cash settlement is expected within either 60 or 90 days. The company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2018, the company has not made any provision for doubtful debts relating to amounts owed by related parties (2017: nil).

In the prior period, similar transactions may have been entered into with the parties stated but were not considered to be related parties. This is due to either the party not being related at the time or the party was wholly owned within Pentland Group Plc (and the company was exempt from disclosing).

20 Controlling parties

As at 31 December 2018, the company was jointly controlled by immediate and ultimate parent undertakings:

- Pentland Group Plc, a company registered in England owns 50% of the Company. R S Rubin and his close family are considered the ultimate controlling party by virtue of their control of Pentland Group plc. Consolidated financial statements have been prepared by Pentland Group plc, which is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements for the year ended 31 December 2018. The consolidated financial statements of Pentland Group plc can be obtained from the company's registered office at 8 Manchester Square, London, W1U 3PH.

- Procastor Holding S.A, a company registered in Luxembourg owns 50% of the Company. Maus Freres S.A. are considered the ultimate controlling party by virtue of their control of Procastor Holding S.A. Consolidated financial statements have been prepared by Procastor Holding S.A., which is the parent undertaking of the smallest group of undertakings to consolidate these financial statements for the year ended 31 December 2018. The parent undertaking of the largest group is Maus Freres S.A. The consolidated financial statements of Procastor Holding S.A. can be obtained from the company's registered office at Rue de Bitbourg 19, 1273 Luxembourg, Luxembourg. The consolidated financial statements of Maus Freres S.A. are not publicly available.

21 Subsequent events

On 2nd July 2019, Procastor Holdings S.A. changed its name to MF Brands Group SA.