

The Hamleys Group Limited

**Annual report and financial
statements**

Registered number 2352435

31 December 2018



Contents

Strategic report	1
Directors' report	3
Statement of Directors' responsibilities	5
Independent auditor's report	6
Statement of profit and loss and other comprehensive income	8
Balance sheet	9
Statement of changes in equity	10
Cash flow statement	11
Notes to the financial statements	12

Strategic report

Principal activities and business review

The principal activity of the company is that of an intermediate investment holding company in the retailing of toys. The business continues to develop its core Hamleys brand through a variety of channels to market, principally retail, internet and franchising.

The Strategic Report has been prepared in accordance with the small company provisions.

Key risks and uncertainties

Financial risk management

Senior management and the Directors have overall responsibility for the oversight of the Company's risk management framework. Senior management and Directors review and manage risk on an ad hoc basis when required through specific consideration of transactions. When identified, agreed actions are taken to mitigate these risks.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation and arises principally from the Company's intercompany receivables.

The company is also exposed to credit risk arising from other financial assets, which comprise of cash. The Company's exposure to credit risk arises from the default of the counterparty with a maximum exposure equal to the carrying value of these instruments if a counterparty to a financial instrument fails to meet its contractual obligation

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates will affect the Company's income. The Company's exposure to market risk predominately relates to interest rate risk.

Interest rate risk

The Company is exposed to the risk of interest rate fluctuations mainly with regard to the interest expense on the debt carried by Hamleys Global Holdings Limited. The Company's intercompany borrowings incur variable interest rate charges linked to LIBOR, plus a margin. The Group's policy aims to manage the interest cost of the Company within the constraints of its financial covenants and business plan.

Price risk

The company is exposed to price risk (including the impact of foreign exchange) on its stock purchases. It mitigates this risk through supplier relationship management and margin management.

Cash flow and liquidity risk

Liquidity risk is the risk that the company may not be able to meet its financial obligations as they fall due. The company ensures that there are sufficient levels of committed facilities and cash to ensure that the company is, at all times, able to meet its financial commitments. Liquidity risk is managed by daily and weekly monitoring of forecast and actual cash flows.

Brexit

The uncertainty around Brexit will continue to impact the UK retail industry in 2019. We are in regular risk assessment dialogue with our key suppliers to minimise supply chain issues for both branded and own branded products.

Foreign Exchange Risk

The Company is exposed to the risk of foreign exchange fluctuations mainly with regard to intercompany balances with subsidiaries denominated in a foreign currency and stock purchases. The Group's policy aims to manage foreign exchange risk and take appropriate measures to mitigate the impact where necessary.

Strategic report *(continued)*

Key risks and uncertainties *(continued)*

Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to optimise returns to its shareholders. The Board's policy is to retain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future growth. The Directors regularly monitor the level of capital in the Group to ensure that this can be achieved.

Results

The company delivered a loss before tax of £956,000 for the year ended 31 December 2018 (2017: loss before tax of £6,218,000). The position of the company as at the year end is shown on page 9.

Key performance indicators

The following are some of the principal KPIs used to monitor the performance of the group:

- Sales and margin versus budget, last year and on a like for like basis;
- Footfall, conversion, transactions and average transaction values versus budget and last year;
- Stock and stock cover versus budget and last year;
- % of own brand sales versus budget and last year;
- Costs versus budget and last year;
- Monthly store and channel trading contribution versus budget, last year and on a like for like basis;
- Monthly EBITDA profit after tax versus budget and last year;
- Weekly and monthly cash flow versus budget, last year and facility level;
- Health and safety audits;
- Product quality audits.

By order of the board



Y Shen
Director

2 Fouberts Place
London
W1F7PA

Dated: 7 May 2019

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2018.

Directors

The Directors who held office during the year and since the year end were as follows:

R Cunningham (resigned 28 February 2019)
W Gang (appointed 28 February 2019)
Y Shen (appointed 9 October 2018)

Other Directors who served during the year:

A Jablonowski (resigned 9 October 2018)

Dividend

The Directors do not recommend the payment of a dividend (2017: *£nil*).

Going concern

The Directors expect the retail climate through 2019/2020 to remain uncertain and will continue to present an unpredictable trading environment. However, in response to these tough market conditions, the Directors believe the difficult business decisions made over the previous 12 months, and which continue to be made, have provided some protection against potential future sales downturn.

Financial forecasts, including sensitivities, for the year have been prepared using conservative sales levels and cost planning accordingly has been aligned to those sales estimates. The group has made considerable effort to improve cost base management, reduce cash levels tied up in working capital by managing stock orders on a just in time basis, and ease pressures on cash flow by managing supplier expectations.

The Directors, after considering the financial forecasts, appropriate sensitivities, current trading and available facilities expect the group and therefore the company to have adequate resources to continue in operational existence for the foreseeable future. The Directors also anticipate that the existing funding facilities to remain in place.

The Company's ultimate parent, C.banner International Holdings Limited ("C.banner"), has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available any working capital funds as needed by the Company. C.banner continues to be extremely supportive of Hamleys, from both a strategic and financial perspective. Recognising the difficult retail environment in the UK, C.banner has agreed to support Hamleys by waiving interest on its shareholder loan, extending repayment terms of its shareholder loan by 3 years.

As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements they have no reason to believe that it will not do so.

Based on all of the evidence available, the Directors continue to adopt the going concern basis in preparing the financial statements.

Directors' report *(continued)*

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with Section 485 of the Companies Act 2006.

By order of the board



Y Shen
Director

2 Fouberts Place
London
W1F7PA
Dated: 7 May 2019

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 and profit or loss of the company and group 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 IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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.

The directors confirm that:

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

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. The directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the company's performance, business model and strategy and is fair, balanced and understandable.

By order of the board



Y Shen
Director

2 Fouberts Place
London
W1F7PA

Dated: 7 May 2019

Independent auditor's report to the members of The Hamleys Group Limited

Opinion

We have audited the financial statements of The Hamleys Group Limited (the 'company') for the year ended 31 December 2018 which comprise Statement of profit and loss and other comprehensive income, Balance sheet, Statement of changes in equity, Cash flow statement 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss or the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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. 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 directors are responsible for the other information. The other information comprises the information included in the Strategic and Directors' report, 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.

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 this other information, we are required to report that fact.

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 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.

Independent auditor's report to the members of The Hamleys Group Limited

Matter on which we are required to report under the Companies Act 2006

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 and Directors' report.

Matters on which we are required to report by exception

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 for the financial statements

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: 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.

 UK LLP

Sergio Cardoso
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
7 May 2019

Statement of profit and loss and other comprehensive income
for the year ended 31 December 2018

	<i>Note</i>	2018 £000	2017 £000
Administrative expenses		(304)	(3,033)
Impairment of investments	6	-	(2,442)
		<hr/>	<hr/>
Operating loss	2	(304)	(5,475)
Financial income	4	17	18
Financial expenses	4	(669)	(761)
		<hr/>	<hr/>
Loss before tax		(956)	(6,218)
Tax on loss	5	40	195
		<hr/>	<hr/>
Loss for the financial year		(916)	(6,023)
		<hr/>	<hr/>

There are no recognised gains or losses other than those passing through the statement of profit and loss and other comprehensive income.

The notes on pages 12 to 24 form part of these financial statements.

All amounts relate to continuing operations.

Balance sheet
at 31 December 2018

	<i>Note</i>	2018 £000	2017 £000
Non-current assets			
Investment in subsidiaries	6	24,214	24,214
		<u>24,214</u>	<u>24,214</u>
Current assets			
Trade and other receivables	7	14,086	14,330
Cash and cash equivalents	8	43	39
		<u>14,129</u>	<u>14,369</u>
Total assets		<u>38,343</u>	<u>38,583</u>
Current liabilities			
Other interest-bearing loans and borrowings	9	(16,392)	(15,724)
Trade and other payables	10	(23,374)	(23,366)
		<u>(39,766)</u>	<u>(39,090)</u>
Total liabilities		<u>(39,766)</u>	<u>(39,090)</u>
Net liabilities		<u>(1,423)</u>	<u>(507)</u>
Equity			
Share capital	11	1,319	1,319
Share premium		4,316	4,316
Merger relief reserve		978	978
Retained earnings		(8,036)	(7,120)
		<u>(1,423)</u>	<u>(507)</u>
Total equity		<u>(1,423)</u>	<u>(507)</u>

The notes on pages 12 to 24 form part of these financial statements.

These financial statements were approved by the board of Directors on 7 May 2019 and were signed on its behalf by:



Y Shen
Director

Company registered number: 2352435

Statement of changes in equity

	Share capital £000	Share premium £000	Merger relief reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	1,319	4,316	978	(1,097)	5,516
Total comprehensive loss for the year					
Loss for the financial year	-	-	-	(6,023)	(6,023)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the year	-	-	-	(6,023)	(6,023)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2017	1,319	4,316	978	(7,120)	(507)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

	Share capital £000	Share premium £000	Merger relief reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018	1,319	4,316	978	(7,120)	(507)
Total comprehensive loss for the year					
Loss for the financial year	-	-	-	(916)	(916)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the year	-	-	-	(916)	(916)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	1,319	4,316	978	(8,036)	(1,423)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The notes on pages 12 to 24 form part of these financial statements.

Cash flow statement
for year ended 31 December 2018

	<i>Note</i>	2018 £000	2017 £000
Cash flows from operating activities			
Loss for the financial year		(916)	(6,023)
Adjustments for:			
Financial income	4	(17)	(18)
Financial expense	4	669	761
Impairment of investments	6	-	2,442
Taxation	5	(40)	(195)
		<hr/>	<hr/>
		(304)	(3,033)
Decrease in trade and other receivables		244	2,008
Increase in trade and other payables		7	792
Tax recoverable		40	195
		<hr/>	<hr/>
Net cash used in operating activities		(13)	(38)
		<hr/>	<hr/>
Cash flows from financing activities			
Interest received		17	18
		<hr/>	<hr/>
Net cash from financing activities		17	18
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		4	(20)
Cash and cash equivalents at start of the year		39	59
		<hr/>	<hr/>
Cash and cash equivalents at end of year	8	43	39
		<hr/>	<hr/>

The notes on pages 12 to 24 form part of these financial statements.

Notes to the financial statements

1 Accounting policies

The Hamleys Group Limited (the “Company”) is a company incorporated and domiciled in the UK. The registered number is 02352435 and the registered address is 2 Fouberts Place, London, W1F7PA.

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union (“Adopted IFRSs”).

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1. Measurement convention

The financial statements are prepared on the historical cost basis except where IFRSs require an alternative treatment.

1.2. Going concern

The Directors expect the retail climate through 2019 to remain uncertain and will continue to present an unpredictable trading environment. However, in response to these tough market conditions, the Directors believe the difficult business decisions made over the previous 12 months, and which continue to be made, have provided some protection against potential future sales downturn.

Financial forecasts, including sensitivities, for the year have been prepared using conservative sales levels and cost planning accordingly has been aligned to those sales estimates. The group has made considerable effort to improve cost base management, reduce cash levels tied up in working capital by managing stock orders on a just in time basis, and ease pressures on cash flow by managing supplier expectations.

The Directors, after considering the financial forecasts, appropriate sensitivities, current trading and available facilities expect the group and therefore the company to have adequate resources to continue in operational existence for the foreseeable future. The Directors also anticipate that the existing funding facilities to remain in place.

The Company’s ultimate parent, C.banner International Holdings Limited (“C.banner”), has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available any working capital funds as needed by the Group. C.banner continues to be extremely supportive of Hamleys, from both a strategic and financial perspective. Recognising the difficult retail environment in the UK, C.banner has agreed to support Hamleys by waiving interest on its shareholder loan, extending repayment terms of its shareholder loan by 3 years.

As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements they have no reason to believe that it will not do so.

Based on all of the evidence available, the Directors continue to adopt the going concern basis in preparing the financial statements.

1.3. Foreign currency

Transactions in foreign currencies are translated to the Company’s functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of profit and loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Notes to the financial statements *(continued)*

1 **Accounting policies** *(continued)*

1.4. Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.5. Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the statement of profit and loss in administrative expenses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.6. Impairment excluding inventories, and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.7. Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation.

1.8. Expenses

Financing expenses

Financial expenses comprise interest payable on bank overdrafts and shareholder loans and unwinding of the discount on provisions.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.9. Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the statement of profit and loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the temporary difference can be utilised.

1.10. Updates to IFRS

New and revised standards that are effective for annual years beginning on or after 1 January 2018

The Company has not adopted any new standards or amendments that have a significant impact on the Company's results or financial position. The standards and amendments that are effective for the first time in 2018 are:

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

The amendment has no material impact on the Company's financial statements.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new Standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018.

Management has reviewed each revenue stream by the Company/Group and considered the impact of IFRS 15. Based on this analysis management has concluded that existing revenue recognition policy is compliant with the requirements of IFRS 15.

The amendment has no material impact on the Company's financial statements.

Notes to the financial statements *(continued)*

2 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2018 £000	2017 £000
Foreign exchange losses/(gains)	7	(127)

The audit fee has been borne by C.banner International Holdings Limited, ultimate parent company. The prior year audit fee was borne by the Company's UK parent, Hamleys Global Holdings Limited.

Amounts receivable by the Company's auditors and their associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the financial statements of the Company's UK parent, Hamleys Global Holdings Limited.

3 Directors' emoluments and staff numbers

The emoluments of the Directors are borne by other group companies and disclosed within their financial statements. With the exception of the Directors, the company has no employees.

4 Financial income and expense

Recognised in profit or loss

	2018 £000	2017 £000
Financial income		
Interest income on unimpaired financial assets	17	18
Finance expense		
Interest expense on shareholder loan	669	761

Notes to the financial statements *(continued)*

5 Taxation

Recognised in the income statement

	2018 £000	2017 £000
Current tax expense		
Adjustments for prior periods	(125)	(67)
Group relief recoverable	85	(128)
	<u>(40)</u>	<u>(195)</u>
Current tax credit		
Deferred tax expense		
Origination and reversal of temporary differences	-	-
	<u>-</u>	<u>-</u>
Deferred tax expense		
	<u>-</u>	<u>-</u>
Total tax credit	<u>(40)</u>	<u>(195)</u>

Reconciliation of effective tax rate

	2018 £000	2017 £000
Loss for the period	(916)	(2,915)
Total tax credit	(40)	(195)
	<u>(956)</u>	<u>(3,110)</u>
Loss excluding taxation		
Tax using the UK corporation tax rate of 19.00% (2017: 19.25%)	(182)	(598)
Expenses not deductible for tax purposes	57	470
Adjustments for prior periods	85	(67)
	<u>(40)</u>	<u>(195)</u>
Total tax credit		

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was enacted on 6 September 2016. These changes will reduce the company's future current tax charge accordingly.

Notes to the financial statements (continued)

6 Investments in subsidiaries

	£000
<i>Cost:</i>	
At 1 January 2018	26,656
Additions	-
	<hr/>
At 31 December 2018	26,656
	<hr/>
<i>Provision for impairment:</i>	
At 1 January 2018	(2,442)
Impairment in the year	-
	<hr/>
At 31 December 2018	(2,442)
	<hr/>
<i>Net book value:</i>	
At 31 December 2018	24,214
	<hr/>
At 31 December 2017	24,214
	<hr/>

During the year ended 31 December 2017, the Company fully impaired its investment in Hamleys Nordic Aps, an 80% owned subsidiary incorporated in Denmark. The Company carried out a review of the recoverable amount of the investment, previously carried at cost of £2,442,000, and determined that the recoverable amount was £nil.

During the year ended 31 December 2018, the Company fully impaired its investment in Hamleys Toys (Ireland) Limited, a 100% owned subsidiary incorporated in Ireland, which ceased trading in May 2018. The Company carried out a review of the recoverable amount of the investment, previously carried at cost of £1, and determined that the recoverable amount was £nil.

The company's subsidiary undertakings, all of which are owned directly are as follows:

	Country of Incorporation	Principal activity	Ordinary Shares 2018	2017
Hamleys of London Limited	United Kingdom	Toy retailing	100%	100%
Hamleys (Franchising) Limited	United Kingdom	Franchise company	100%	100%
Scrumptalicious Limited	United Kingdom	Retailing	100%	100%
Luvley Limited	United Kingdom	Retailing	100%	100%
Hamleys Asia Limited	Hong Kong	Import company	100%	100%
Hamleys Toys (Ireland) Limited*	Ireland	Toy retailing	100%	100%
Hamleys Finland Oy*	Finland	Toy retailing	80%	80%
Hamleys Nordic Aps*	Denmark	Holding company	80%	80%
Hamleys Denmark Aps*	Denmark	Toy retailing	80%	80%
Hamleys Sweden AB*	Sweden	Toy retailing	80%	80%
Hamleys Norway AS*	Norway	Toy retailing	80%	80%

*Companies ceased trading during the year.

Notes to the financial statements *(continued)*

7 Trade and other receivables

	2018 £000	2017 £000
Trade receivables due from related parties	14,086	14,330

8 Cash and cash equivalents

	2018 £000	2017 £000
Cash and cash equivalents	43	39

9 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, see note 12.

	2018 £000	2017 £000
Current liabilities		
Unsecured shareholder loan	16,392	15,724

The shareholder loan totals £16,392,000 (2017: £15,724,000) and is repayable on demand. The loan carries interest at LIBOR + 4.6%.

The loan is unsecured.

10 Trade and other payables

	2018 £000	2017 £000
Current		
Trade payables due to related parties	23,337	22,305
Other creditors	37	61
	23,374	23,366

Notes to the financial statements (continued)

11 Capital and reserves

Share capital

	2018 £000	2017 £000
<i>Allotted, called up and fully paid</i>		
23,740,354 ordinary 5 5/9p shares	1,319	1,319

Details of all movements in reserves for the Company are shown in the Statement of Changes in Equity. A description of the nature and purpose of each reserve is given below:

Merger relief reserve

The merger relief reserve comprises the excess of the fair value of consideration received over the nominal value of shares issues, and is not distributable.

12 Financial instruments

Financial risk management

Senior management and the Directors have overall responsibility for the oversight of the Company's risk management framework. Senior management and Directors review and manage risk on an ad hoc basis when required through specific consideration of transactions. When identified, agreed actions are taken to mitigate these risks.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation and arises principally from the Company's intercompany receivables.

The company is also exposed to credit risk arising from other financial assets, which comprise of cash. The Company's exposure to credit risk arises from the default of the counterparty with a maximum exposure equal to the carrying value of these instruments if a counterparty to a financial instrument fails to meet its contractual obligation

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates will affect the Company's income. The Company's exposure to market risk predominately relates to interest rate risk.

Interest rate risk

The Company is exposed to the risk of interest rate fluctuations mainly with regard to the interest expense on the debt carried by Hamleys Global Holdings Limited. The Company's intercompany borrowings incur variable interest rate charges linked to LIBOR, plus a margin. The Group's policy aims to manage the interest cost of the Company within the constraints of its financial covenants and business plan.

Price risk

The company is exposed to price risk (including the impact of foreign exchange) on its stock purchases. It mitigates this risk through supplier relationship management and margin management.

Cash flow and liquidity risk

Liquidity risk is the risk that the company may not be able to meet its financial obligations as they fall due. The company ensures that there are sufficient levels of committed facilities and cash to ensure that the company is, at all times, able to meet its financial commitments. Liquidity risk is managed by daily and weekly monitoring of forecast and actual cash flows.

Notes to the financial statements *(continued)*

12 Financial instruments *(continued)*

Brexit

The uncertainty around Brexit will continue to impact the UK retail industry in 2019. We are in regular risk assessment dialogue with our key suppliers to minimise supply chain issues for both branded and own branded products.

Foreign Exchange Risk

The Company is exposed to the risk of foreign exchange fluctuations mainly with regard to intercompany balances with subsidiaries denominated in a foreign currency and stock purchases. The Group's policy aims to manage foreign exchange risk and take appropriate measures to mitigate the impact where necessary.

Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to optimise returns to its shareholders. The Board's policy is to retain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future growth. The Directors regularly monitor the level of capital in the Group to ensure that this can be achieved.

Fair value disclosures

The fair value of each class of financial assets and liabilities is the carrying amount, based on the following assumptions:

Trade receivables and trade payables	The fair value approximates to the carrying value because of the short maturity of these instruments.
Long-term borrowings	Based on calculations performed by management, the fair value of the shareholder loan is not materially different to its carrying value. Therefore, the fair value approximates the carrying value reported in the balance sheet.

Fair value hierarchy

Financial instruments carried at fair value should be measured with reference to the following levels:

Level 1: quoted prices in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

All financial instruments carried at fair value have been measured using a Level 2 valuation method.

Notes to the financial statements *(continued)*

12 Financial instruments *(continued)*

The fair value (which is equal to carrying value) of financial assets and liabilities are as follows:

	2018 £000	2017 £000
Cash and cash equivalents	43	39
Trade and other receivables	14,086	14,330
	<hr/>	<hr/>
Total financial assets	14,129	14,369
	<hr/>	<hr/>
Trade and other payables	23,337	23,366
Borrowings at amortised cost	16,392	15,724
	<hr/>	<hr/>
Total financial liabilities	39,729	39,090
	<hr/>	<hr/>

Financial instruments sensitivity analysis

In managing interest rate risk, the Company aims to reduce the impact of short-term fluctuations on its earnings. At the end of each reporting period, the effect of hypothetical changes in interest rates is as follows:

The table below shows the Company's sensitivity to interest rates on floating rate borrowings (i.e. shareholder loan borrowings which attract interest at LIBOR +4.6%) if interest rates were to change by +/-1%. The impact on the results in the statement of profit and loss and other comprehensive income and equity would be.

Interest rate sensitivity analysis

	2018 Increase/ (decrease) in equity £000	2017 Increase/ (decrease) in equity £000
+1% movement in rates	(157)	(157)
-1% movement in rates	157	157
	<hr/>	<hr/>

13 Commitments

The company has £nil commitments, including £nil capital commitments for which no provision has been made in the financial statements (2017: £nil).

Notes to the financial statements (continued)

14 Contingencies

There is a cross-guarantee in place between certain group companies in respect of the current year bank facilities. The Company exposure at the end of the year is £nil (2017: £nil).

15 Related parties

Transactions with key management personnel – Directors' emoluments

No Directors' emoluments are recharged to the Company. The Directors are the only key management personnel.

Other related party transactions

	Administrative expenses incurred from	
	2018 £000	2017 £000
Parent company		
Shareholder loan interest	669	761
	<u>669</u>	<u>761</u>

	Receivables outstanding		Payables outstanding	
	2018 £000	2017 £000	2018 £000	2017 £000
Parent company				
Hamleys Global Holdings Limited	-	-	18,303	19,174
Subsidiaries				
Hamleys of London Limited	9,744	9,744	5,414	7,095
Hamleys (Franchising) Limited	634	509	10,056	6,847
Hamleys Toys (Ireland) Limited	3,079	3,103	5,967	5,805
Scrumptalicious Limited	11	346	-	-
Luvley Limited	628	628	-	-
Hamleys Finland Oy	-	-	-	108
Hamleys Nordic ApS	-	-	-	-
	<u>14,096</u>	<u>14,330</u>	<u>39,740</u>	<u>39,029</u>

Note that there is a balance of £2,667,150 (2017: £3,108,261) owing to The Hamleys Group Limited from Hamleys Nordic ApS. This entity ceased trading in 2017 and there the balance was fully provided for.

16 Ultimate parent company

The Company is a subsidiary undertaking of Hamleys Global Holdings Limited, a company incorporated in England. This is the smallest group in which the results of the Company are consolidated. Copies of the group financial statements are available from the Registrar of Companies, Companies House, Cardiff. The Company's ultimate parent company and controlling party is C.banner International Holdings Limited, a company incorporated in Bermuda and listed on the Hong Kong Stock Exchange. The company office address is Unit 2904, 29th Floor, Far East Finance Center, 16 Harcourt Road, Hong Kong.

Notes to the financial statements *(continued)*

17 Accounting estimates and judgements

The preparation of the financial information requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods impacted.

The key judgements and estimates employed in the financial statements are considered below.

Recoverability of intercompany receivables

Intercompany receivables are assessed for impairment and are impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. The Directors use historic experience and assessment of future profitability to assess whether an impairment is required.

Recoverability of intercompany investments

Intercompany investments are assessed for impairment and are impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. The Directors use historic experience and assessment of future profitability to assess whether an impairment is required.