

Fat Face Limited

Annual Report & Financial Statements
Registered number 02954734
For the 52 weeks ended 30 May 2020

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Strategic Report

The Directors present their Strategic Report for the 52 week period ended 30 May 2020.

Principal Activities

FatFace is a UK based lifestyle clothing brand, with a unique heritage, offering a wide range of high quality and affordable clothing, footwear and accessories for all the family. FatFace has a distinct and highly recognisable brand image centred on five key characteristics: Authentic, British, Fun, Relaxed/Casual and Family. Our customers are predominantly family oriented women and men who are attracted by an active, casual outdoor lifestyle and we want them to love wearing our clothes. Our products are designed with purpose and built to last.

Business Review

Overview

The Economy has been impacted materially by the onset of COVID-19 during the financial year. There is little or no experience of a similar crisis so it remains unclear as to the lasting consequences. Given these challenging market conditions, revenue dropped to £198.2 (2019: £236.4m). Adjusted EBITDA¹ (the measure that best reflects the trading performance of the business) was £17.1m (2019: £12.2m); this increase is primarily as a result of the impact of the adoption of IFRS 16. Operating loss before non-recurring items was £10.0m (2019 operating profit: £3.1m) and the net result before non-recurring items for the year was £6.2m (2019: £15.1m).

Ecommerce

We work hard to be a connected brand offering our customers a seamless FatFace experience however they choose to shop with us. "Shop your way" is central to this philosophy offering customers the opportunity to "Click & Collect" - order through FatFace.com for delivery to their chosen store or, "Order in Store" for delivery to their home or place of work.

Our strategy is to continue to support growth in ecommerce sales, both in transaction volume and as a percentage of the Group's revenue, through making continual website enhancements, developing existing channels such as 'Order in Store' and 'Click & Collect', and increasing the number of customer database records in order to maximise the benefit of marketing activity.

Our online business has doubled in the last 5 years. The market has and will continue to see strong growth in customer preference for online purchasing. We aim to grasp this opportunity to grow market share and fulfil our customer vision. We want to grow ecommerce to be at least 40% of our business in the next 5 years.

Stores

Our UK stores remains the largest part of the business although we expect this segment to decline over the next 5 years. The stores have a flexible lease portfolio (2.9 years on average to lease end or break option). The Group will not operate unprofitable stores.

The brand performs well across store types and geographies – from seaside locations to large shopping centres. FatFace will look to maximise this flexibility in response to market headwinds.

¹ EBITDA as defined in the Senior Facilities Agreement as earnings before interest, tax depreciation, amortisation and non-recurring items, on a frozen accounting standards basis.

Opportunities to exit properties at end of lease for tactical or strategic reasons are discussed and executed regularly as well as converting rent terms to turnover where it proves economically attractive to do so.

Our Strategy

The Company's strategy is centred on harnessing its heritage and adapting it to develop and grow the FatFace brand within its existing and new markets.

We have redefined how we look at the business. The focus is on Product, Customer & Brand with all three playing a pivotal role in creating a successful business.

The business continues to have ambitious but sustainable growth plans.

Key Performance Indicators

A summary of the Company's current KPIs are presented below:

	2020	2019
	(52 week period)	(52 week period)
Number of UK Full Price stores	220	221
Ecommerce revenues as a % of total revenue	27.9%	21.4%
Website visits	28.3m	22.3m
Gross margin ²	55%	58%

² Gross margin was impacted by a decline in the USD/GBP hedged rate in the year.

Principal Risks and Uncertainties

Being the main trading company of the Group, Fat Face Limited's principal risks and uncertainties are closely aligned to those of the GLQ Fulham Holdings Ltd, as outlined in the GLQ Fulham Holdings Ltd consolidated accounts.

The FatFace Board is responsible for identifying significant risks to the business and for ensuring that appropriate internal controls and risk management are in place to allow the Group and therefore Company, to achieve its strategic objectives.

The FatFace Audit Committee³ monitors these risks via the risk register, with executive Directors and operational management delegated with the task of implementing these processes and reporting to the Committee on the outcome.

The risks and uncertainties described below represent those which the Directors consider to be the most significant to delivering the Company's strategy. This list is not exhaustive and there may be additional risks and uncertainties, currently not known to the Directors or which the Directors believe to be less material, which may have an adverse effect on the Company:

Type	Issue	Potential Impact	Mitigation
Strategic Risks	Brexit	The economic and financial environment has been impacted by the UK vote to leave the EU.	<p>Following the agreement of a trade deal with the European Union, the UK has now left the European Union. There is still much to understand and work through but the key elements appear to be:</p> <ol style="list-style-type: none"> 1. Duty rates will be broadly in line with previous levels. 2. Labour movement remains a focus and we will continue to support anyone impacted. At the moment shortages of labour is not being seen by the Group. 3. There are delays in getting product into the UK, the Group is working with its Freight Forwarder and Supplier partners to mitigate as much as possible. <p>Management are reviewing daily and creating alternative processes wherever possible.</p>

³ The role of the Audit Committee, which acts independent of management, includes monitoring the integrity of the financial statements, the adequacy and effectiveness of the Group's internal controls and risk management systems and the policies employed to mitigate risk across the organisation.

Type	Issue	Potential Impact	Mitigation
	Brand and reputational risk	The strength of the FatFace brand and our reputation are fundamental to the business. There is a risk of damage to the brand by either our internal actions or due to the actions of external business partners, including unethical behaviour by suppliers. Brand damage could cause severe and enduring reductions in revenue.	<p>Management plans campaigns very carefully and have a proactive approach towards social media monitoring.</p> <p>Any negative publicity, such as customer complaints, is dealt with in a timely manner.</p> <p>All suppliers sign and agree to abide by the "FatFace Way of Life" which is our ethical code of conduct. An annual SMETA audit is followed up by FatFace's own verification audit. Any issues are highlighted and a Corrective Action Plan (CAP) put together with the supplier for regular review. Furthermore, a sustainability update is provided quarterly to the Audit Committee.</p> <p>Once audited, all of our factories are graded Green, Amber, Red or Black according to our ethical code of conduct. It is FatFace's sourcing policy that following an audit and subsequent grading, we will not place any future orders with a black graded factory. All other grades of factory have a Corrective Action Plan (CAP) in place that details the remediation of any issues found in the factory during the auditing process.</p>
	Fashion and design trends	As with all clothing retailers, there is a risk that our product will not satisfy the needs of our customers, resulting in excess inventory and reduced sales.	<p>We have a strong team in place to allow us to maintain a high level of market awareness and understanding of fashion and consumer trends to ensure that we can respond to changes in consumer needs.</p> <p>Our handwriting is established and while our offering includes items which reflect market trends, we execute this in a way that reflects our brand DNA, and this continues to be well received by our customers.</p>

Type	Issue	Potential Impact	Mitigation
	Infrastructure	<p>Any significant interruption in the activities of our distribution centre or administrative offices could be highly disruptive to the business and could result in a loss of revenue, data and inventory. This includes:</p> <ul style="list-style-type: none"> - Cyber breaches - IT system failure - Changing technology 	<p>We have a business continuity plan in place. This has been utilised extensively during the Covid-19 Pandemic.</p> <p>In addition:</p> <ul style="list-style-type: none"> - Firewalls are in place and regular checks are actioned on the security of our systems. We are implementing Multi-Factor authentication (MFA) which will add another layer of user authentication to further protect against cyber-security whilst Crew are working remotely. This will be in place 2020/21 - IT stability is an ongoing requirement and is being supported by regular maintenance & enhanced monitoring & reporting. We have commenced a programme of work to upgrade some of our older applications with a modern, cloud-based application with Phase 1 completed and a further phase scheduled for 2021 - Technology investments to upgrade or replace our web platform, integration hub and all data integrations have significantly reduced this risk - The Group has also commenced a core system replacement project which will happen over the next 2 years. Phase 1 has been approved and delivery is underway.
Operational Risks	Covid-19	<p>Coronavirus has a significant impact on the crew and business, including interruption to the operations of the business and could result in a significant reduction of revenue. It could impact on the businesses ability to carry out its trade whilst protecting the health and safety of its stakeholders.</p>	<p>A Business continuity team has been set up and meets daily to ensure it is engaged to act upon ever changing government guidelines.</p> <p>Fat Face follows recommended guidance on Health and Safety surrounding the outbreak.</p> <p>Fat Face will continue to utilise any government support that is made available where applicable.</p>

Type	Issue	Potential Impact	Mitigation
	Global Legal Compliance	Failure to react appropriately in the event of breach to legal compliance across all markets in which we operate, could result in financial penalties or reputational damage.	<p>Systems, policies and procedures are in place to safeguard against breaches in regulations.</p> <p>- Intellectual Property ("IP") - The Group has significant focus on the maintenance of its IP. All currently held trademarks are maintained on a database and a 3rd party system reviews all potential trademarks which are being proposed globally. The Group also reviews international trademarks well ahead of any new territory launch to ensure all relevant trademarks are obtained.</p> <p>- Payment Card Industry Data Security Standard ("PCI") - Credit Card details are not stored in any of our systems and are managed on our behalf by third parties. The third parties are PCI compliant.</p> <p>- Store processes - UK Retail Operations continue to update the operations manual as processes and procedures change. US Retail Operations continue to complete full compliance audits across stores in the US.</p>
Financial Risk	Input price pressure	Input prices are causing suppliers to increase their prices. The impact is a reduced margin if these increases are passed onto the Group without us being able to pass them onto the customer.	<p>There is a strong emphasis from the Board to continue to work with key suppliers to mitigate cost price rises and actively look to increase our intake margins.</p> <p>Cross costings (effectively procurement of key lines) is ongoing and will increase. Current suppliers are holding or lowering prices to maintain the business.</p> <p>With lower cotton and oil prices, along with key currencies seeing weaknesses against sterling, risk is being minimised but with a continued close review.</p>

Current Trading and Outlook

The outlook will remain challenging for at least the next 12-24 months as the UK and US markets recover from the Covid-19 Pandemic.

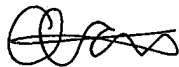
With the investments of the last 2 years, and an increasingly differentiated product offer, the Group remain well placed.

Post year end the Group took a radical restructure of the balance sheet, with new £25m facilities, including £15m of new money being made available to aid the capital position of the Group for the future. As part of the restructure the ownership of the business will transfer from Bridgepoint to our Banking Syndicate.

The Board remains confident in the Group's prospects for the current financial year, despite the three national lockdowns ecommerce trading has been robust and outperformed initial expectations.

The report was approved by the Board on 2 February 2021

By order of the board:



Elizabeth Evans

Chief Executive Officer

Unit 3, Ridgway, Havant, Hampshire, PO9 1QJ

Date 2 February 2021

Directors' Report

The Directors present their Directors' Report and the audited financial statements for the 52 week period ended 30 May 2020 (2019: 52 week period ended 1 June 2019).

Fat Face Limited is the main trading company in the Group of companies which was controlled by FatFace Group Limited ('the Group') during the financial year.

Details of the Company's principal activity, performance, principal risks and uncertainties and risk management can be found in the Strategic Report on pages 4 to 7.

Our culture

At FatFace we believe that our brand heritage, identity and image are shared by our people at all levels, which helps to distinguish us from competitors and has been part of the success of our business. Our positive and proactive approach to managing the changing landscape has enabled us to deal with live issues that impact our people and our culture.

Employee engagement remains at the forefront of all that we do. We remain creative in our approach and listen to what's really important to our people and, where feasible, adapt our approach to meet their needs. We take time to celebrate success and over performance and concentrate on creating a transparent, inclusive environment where people grow.

Diversity and equality

We are committed to being an equal opportunities employer. All our policies and practices support this ethos, as does our day to day decision-making.

We provide training and development opportunities to all employees. We do not discriminate based on age, race, religion, belief, gender, gender identity, sexual orientation, marital status, nationality, ethnicity or disability; we seek to develop all of our staff to reach their optimum potential. The apprenticeship levy continues to be utilised, with 4 employees completing their programmes successfully this year. This provides a positive platform to be able to advance the ethos of both developing existing talent and bringing in new.

We partnered with Retail Week's 'be inspired' programme this year which aims to "promote diversity at all levels of retail". Overall, 47 employees attended multiple events in the programme.

We continue to ensure all our processes and practices are inclusive. As we continually review our recruitment practices we are making a number of improvements which include but are not limited to blind screening of all candidates and new recruitment partnerships with diverse agencies. We continue to be committed to making resourcing decisions based on talent and experience. We give full and fair consideration to applications for employment from disabled candidates.

Health and Safety

The health, safety and well-being of our employees and customers are of great importance to us. There is a comprehensive structure of processes and procedures to mitigate health and safety risk, including risk assessments, accident reporting and nominated health and safety representatives across the business.

Within stores, each of its store managers is provided with a “Stay Safe Guide” which informs them of their responsibilities to take reasonable precautions to ensure the safety, health and welfare of those likely to be affected by the operation of the business.

This year we delivered certified health and safety training to 172 managers. Policies and procedures are reviewed and audited regularly to make safety management more robust and up to date. We have also put in place a number of COVID-19 safety measures in all areas to ensure further safe working conditions. These include one-way systems, track and trace measures and social distancing.

The FatFace Foundation “Changing people’s lives wherever FatFace goes”

The Foundation is a registered charity and separate legal entity, set up in 2009 to make a positive and enduring difference to the lives of people in communities where FatFace sources, manufactures, retails and distributes its products. Through the Foundation, we pride ourselves in enabling our partners, chosen local charities, suppliers, customers and crew to make a difference.

The Foundation has continued to build on its strategy and has set some firm goals for achievement. The headline being that we will support causes and charities that fall under three headlines of ‘Health and Wellbeing’, ‘Life Below Water’ and ‘Life On Land’, with specific objectives including to feed and clothe as many people as we can within our FatFace communities, provide access to work to young people whom otherwise could be disadvantaged and get more young people off the streets.

To enable the Foundation to continue to raise funds, the Charity shop in Havant remains open and continues to trade well with all profits going to the causes that the Foundation supports.

During the year the Foundation has continued to work with the Princes Trust, National Forest and other local charities in line with the strategy.

Our approach to sustainability

Our journey to sustainability is ongoing and it’s one that FatFace is committed to. We know we’re not there yet, but our destination is on the horizon and our aim is clear; to make the most sustainable choices for our product, our planet and our community.

Our sustainability strategy	Our 2025 strategy includes targets to:
Product	<ul style="list-style-type: none"> • Prioritise our buying decisions to favour suppliers who go above and beyond responsible sourcing standards. • Publicly disclose our first-tier product supply chain. • Continue to train and educate our people on responsible buying practices. • Source more of our materials from sustainable sources, including recycled polyester, European linen, sustainably sourced viscose and leather from certified tanneries

Planet	<ul style="list-style-type: none"> • We will not send any of our waste to landfill. • We will eliminate single use plastic across our business. • 100% of the energy powering our head office and UK stores will come from renewable sources. • We will strive to be carbon neutral by reducing our CO2 emissions by at least 40%, and offsetting remaining CO2 emissions by planting trees and supporting projects that reduce CO2 emissions globally.
Community	<ul style="list-style-type: none"> • Create a sustainable fundraising team to donate the equivalent of 1% of our profits each year to our chosen charities • Donate 10,000 volunteer days to local charities and chosen partners through our Donate a Day initiative. • Empower our people to become sustainability champions across every part of our business.

Proposed Dividend

The Directors do not recommend the payment of a dividend (2019: £nil).

Directors

The Directors who held office in the Company during the year were as follows:

Elizabeth Evans – Chief Executive Officer

William Crumbie – Chief Financial Officer

Michael Thomas – Chief Operations Officer (appointed 6 April 2020, resigned 25 September 2020)

The Directors who held office at the end of the period had no disclosable interest in the shares of the Company.

The Company provides Directors' and officers' insurance protection for all of the Directors of the companies in the Group.

Shareholders

At the reporting date Bridgepoint was the Company's Parents major shareholder and had been since 2007. Their investment in the Group was held within the Bridgepoint Europe III Fund. For details of their shareholding, please refer to note 23.

Patrick Fox and Benoit Alteirac (Investor Directors) were monitoring the fund's investment on behalf of Bridgepoint. They were active and supportive investors who attend Board and Audit Committee meetings and have frequent dialogue with the Executive Directors. At least one of the Investor Directors was present at all Board and Audit Committee meetings held.

Subsequent to the 52 weeks ended 30 May 2020, the existing lender syndicate completed a debt and capital restructuring of the Group such that at the time of the signing of the financial statements the ownership of the Company and its subsidiaries has been transferred to Fulham Midco Limited which is owned indirectly the lender syndicate.

Subsequent Events

Going Concern

Notwithstanding the net current liabilities of £168,582,000 (2019: 128,245,000) as at 30th May 2020, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

Further information concerning the principal activities as well as the business risks is set out on page 2 of the Strategic report.

Before the 25 September 2020, the Company was dependent on its intermediate parent company, GLQ Fulham Holdings Ltd (formerly FatFace Group Parent Limited), not seeking repayment of the amounts due to other companies in the group, which at the 30 May 2020 amounted to £158,863,000. However, on the 25 September 2020 all balances between the UK group companies were waived.

New Debt Facilities and change of ownership

On 25 September 2020, a debt and group restructure was concluded which resulted in the ownership of GLQ Fulham Holdings Ltd and its subsidiaries ('FF Group') being transferred from FatFace Group Limited, which was ultimately controlled by Bridgepoint Europe III Fund managed by Bridgepoint Advisers Limited and other shareholders to the Groups Banking syndicate.

As part of the restructure the debt was amended, resulting in the modification of the existing facilities of the FF Group as detailed in note 24. This significantly reduced the debt level of the FF Group from £165.2m as at 30 May 2020 to £25m. The new facilities comprise a New Money Term Facility of £15m, to cover the working capital needs of the business and to support the Group's strategic plan and a reinstated £10m Senior term loan facility. Group net cash at the 2 January 2021 was £12.2m (cash and cash equivalents less interest bearing loans and borrowings). The new facilities mature between 24 September 2023 and 1 May 2024. The New "minimum EBITDA" covenant thresholds with headroom against the Group's base case have been agreed as well as a minimum cash covenant. The Group's base case has been prepared based on COVID-19 trading assumptions. For further information on this restructuring please refer to note 24.

Going concern forecasts

The Company forms an integral part of the FF Group and although it is not dependent on intercompany financing following the waiver of intercompany loans, as set out above, it is reliant upon the continuation of the wider Group, in particular covenant compliance on the new debt facilities where the entity acts as a guarantor. As such, in making the going concern assessment the Directors have considered the cash flow forecasts for the FF Group.

As at the date of approving these financial statements, the impact of COVID-19 on the Group's trading is continually being assessed and is subject to change. Ecommerce trading over the three national lockdowns has been robust and outperformed initial expectations.

Base case

The Group's base case assumes the national lockdown continues until the middle of February 2021, followed by a slow and gradual recovery throughout the calendar year of 2021 with cautious cost savings, to more normalised trading levels in 2022.

The Directors have prepared as part of the base case forecasts, cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that the Group will have sufficient funds to meet its liabilities as they fall due for that period. Under the base case there would be no breach of covenants with sufficient headroom at all periods. There are no material capital repayments of debt falling due within the forecast period and the facilities do not mature until 24 September 2023 and 1 May 2024.

Downside case

The Directors believe the base case above is based upon reasonable assumptions including a phased level of recovery during the course of the calendar year of 2021. However, it is reasonably possible that the recovery profile is slower than assumed within the base case and the current national lock down is extended beyond the middle of February 2021. The Directors have therefore prepared a downside case that models an extension of the UK wide lock down until the end of March 2021 and further national lockdowns in November 2021 and January 2022.

This downside case assumes cost savings that are within management control and a boost to our ecommerce business during the lockdown periods, both of which have been informed by the experience of the lockdown in November 2020 and current trading performance. Consistent with the base case, the downside case does not give rise to a breach of the financial covenants in the revised debt facilities and the Group is forecasted to continue to operate within its committed banking facilities with headroom.

The directors have performed stress testing of this conclusion by considering other scenarios and assumptions. The greatest sensitivity in the downside case is the level of cash available to the Group at the end of the current nationwide lockdown, and therefore the judgement as to when that nationwide lockdown is assumed to end is significant to the going concern conclusion. Should the national lockdown endure for a longer period than assumed in the downside case, cash would become tighter and further management actions would be deployed in order to preserve cash and avoid breaching the financial covenants. These would include negotiations with suppliers and landlords, the availing of any further government support that may be made available and ensuring stock buying assumptions remained appropriate to the revised outlook. If the national lockdown endured through May 2020, depending on the level of savings generated through the actions described above, some of which are outside of management's control, there is the possibility that liquidity could be exhausted and the Group would have to seek further short term financing from its lenders or shareholders in order to pay its liabilities in an orderly fashion as they fell due, and to waive any covenants that would be in breach.

Based on the uncertainty surrounding the nationwide lockdown the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Disclosure of Information to Auditor

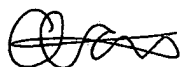
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make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

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

The Directors' report was approved by the Board on 2 February 2021

By order of the board:



Elizabeth Evans

Chief Executive Officer

Unit 3, Ridgway, Havant, Hampshire, PO9 1QJ

Date 2 February 2021

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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

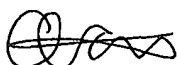
Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the board:



Elizabeth Evans

Chief Executive Officer

Unit 3, Ridgway, Havant, Hampshire, PO9 1QJ

Date 2 February 2021

Independent Auditor's Report to the members of Fat Face Limited

Opinion

We have audited the financial statements of Fat Face Limited ("the company") for the year ended 30 May 2020 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 May 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which describes uncertainties regarding the nationwide lockdown and its impact on the Group's liquidity and financial covenants. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 15, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

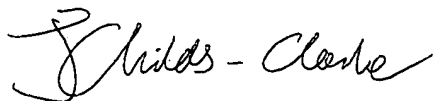
Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



James Childs-Clarke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Gateway House
Tollgate
Eastleigh
SO53 3TG
2 February 2021

Income Statement*for the 52 weeks ended 30 May 2020 (2019: 52 weeks ended 1 June 2019)*

	Note	Trading results £000	Non- recurring items £000	2020 £000	Trading results £000	Non- recurring items £000	2019 £000
Revenue	2	198,072	-	198,072	236,035	-	236,035
Other income	2	166	-	166	384	-	384
		198,238	-	198,238	236,419	-	236,419
Changes in inventories of finished goods		9,887	-	9,887	5,000	-	5,000
Staff costs	4	(33,691)	(968)	(34,659)	(39,302)	(816)	(40,118)
Other trading expenses	3	(157,319)	(2,572)	(159,891)	(189,924)	(1,461)	(191,385)
Total trading expenses before depreciation and amortisation and share-based payments		(181,123)	(3,540)	(184,663)	(224,226)	(2,277)	(226,503)
Operating profit before interest, tax, depreciation, amortisation, impairment and share-based payments		17,115	(3,540)	13,575	12,193	(2,277)	9,916
Depreciation, amortisation and impairment	3	(27,067)	(32,356)	(59,423)	(9,048)	(288,234)	(297,282)
Share-based payments		-	-	-	-	3,608	3,608
Operating/(loss) profit		(9,952)	(35,896)	(45,848)	3,145	(286,903)	(283,758)
Finance income	6	44,452	-	44,452	27,225	-	27,225
Finance cost	6	(27,153)	-	(27,153)	(11,871)	-	(11,871)
Net finance income		17,299	-	17,299	15,354	-	15,354
Profit/(loss) before tax		7,347	(35,896)	(28,549)	18,499	(286,903)	(268,404)
Taxation	7	(1,127)	672	(455)	(3,398)	433	(2,965)
Profit/(loss) for the period		6,220	(35,224)	(29,004)	15,101	(286,470)	(271,369)

There is no difference between the profit on ordinary activities before taxation and the profit for the financial periods stated above and their historical cost equivalents.

All of the Company's activities in the above periods are derived from continuing operations.

The notes on pages 23 to 57 are an integral part of these financial statements.

Statement of Comprehensive Income*for the 52 weeks ended 30 May 2020 (2019: 52 weeks ended 1 June 2019)*

	Note	2020 £000	2019 £000
Loss for the period		(29,004)	(271,369)
Other comprehensive income/(expense)			
<i>Items that may be reclassified to profit and loss</i>			
Effective portion of changes in fair value of cash flow hedges net of recycling		(1,138)	1,268
Tax recognised on income and expenses recognised directly in equity		215	(233)
Net other comprehensive income		<u>(29,927)</u>	<u>(270,334)</u>
Total comprehensive income		<u>(29,927)</u>	<u>(270,334)</u>

The notes on pages 23 to 57 are an integral part of these financial statements.

Statement of Financial Position
as at 30 May 2020 (2019: as at 1 June 2019)

	Note	2020 £000	2019 £000
Non-current assets			
Property, plant and equipment	8	18,125	22,441
Intangible assets	9	4,390	2,474
Right-of-use asset	10	73,287	-
Deferred tax assets	11	2,451	1,846
		<u>98,253</u>	<u>26,761</u>
Current assets			
Inventories	12	25,607	35,494
Trade and other receivables	13	8,130	15,026
Cash and cash equivalents	14	8,894	3,362
Other financial assets	15	-	1,270
		<u>42,631</u>	<u>55,152</u>
Total assets		<u>140,884</u>	<u>81,913</u>
Current liabilities			
Trade and other payables	16	(180,745)	(174,971)
Employee benefits	17	(186)	(169)
Lease liability	10	(19,949)	-
Provisions	18	(287)	(630)
Tax payables		(10,046)	(7,627)
		<u>(211,213)</u>	<u>(183,397)</u>
Non-current liabilities			
Other payables	16	-	(10,810)
Lease liability	10	(77,433)	-
Provisions	18	(3,158)	(5,366)
		<u>(80,591)</u>	<u>(16,176)</u>
Total liabilities		<u>(291,804)</u>	<u>(199,573)</u>
Total net current liabilities		<u>(168,582)</u>	<u>(128,245)</u>
Total net non-current assets		<u>17,662</u>	<u>10,585</u>
Net liabilities		<u>(150,920)</u>	<u>(117,660)</u>
Equity			
Share capital	19	300	300
Capital contribution reserve		22,734	22,734
Cash flow hedging reserve		-	923
Retained earnings		(173,954)	(141,617)
Total equity		<u>(150,920)</u>	<u>(117,660)</u>

The notes on pages 23 to 57 are an integral part of these financial statements. These financial statements were approved by the board of Directors on 2 February 2021 and were signed on its behalf by



William Crumbie
Chief Financial Officer

Statement of Changes in Equity*for the 52 weeks ended 30 May 2020 (2019: 52 weeks ended 1 June 2019)*

	Note	Share capital £000	Capital contribution reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 2 June 2018		300	26,625	(112)	129,752	156,565
Profit for the period		-	-	-	(271,369)	(271,369)
Effective portion of change in fair value of cash flow hedges, net of tax		-	-	1,035	-	1,035
Total comprehensive income for the period		-	-	1,035	(271,369)	(270,334)
Transaction with owners						
Share-based payments	17	-	(3,891)	-	-	(3,891)
Balance at 1 June 2019		300	22,734	923	(141,617)	(117,660)
Impact of change in account policy	25	-	-	-	(3,333)	(3,333)
Adjusted balance at 1 June 2019		300	22,734	923	(144,950)	(120,993)
Profit for the period		-	-	-	(29,004)	(29,004)
Effective portion of change in fair value of cash flow hedges, net of tax		-	-	(923)	-	(923)
Total comprehensive income for the period		-	-	(923)	(29,004)	(29,927)
Transaction with owners						
Share-based payments	17	-	-	-	-	-
Balance at 30 May 2020		300	22,734	-	(173,954)	(150,920)

The notes on pages 23 to 57 form an integral part of these financial statements.

Statement of Cash Flows*for the 52 weeks ended 30 June 2020 (2019: 52 weeks ended 1 June 2019)*

	Note	2020 £000	2019 £000
Cash flows from operating activities			
Profit before tax for the year		(28,549)	(268,404)
<i>Adjustments for:</i>			
Depreciation, amortisation, impairment and loss on disposal	3,8,9	59,423	297,281
Share-based payment expenses	17	-	(3,608)
Finance income	6	(44,452)	(27,225)
Finance costs	6	27,153	11,871
Cash generated from operations		13,575	9,915
Change in trade and other receivables		18,513	(16,093)
Change in inventory		9,887	(5,000)
Change in trade and other payables		(9,436)	17,027
Change in provision and employee benefits		179	1,047
		32,718	6,896
Tax (paid)/received		1,643	(2,960)
Net cash from operating activities		34,361	3,936
Cash flows from investing activities			
Interest received		14	15
Acquisition of plant, property and equipment		(3,547)	(8,072)
Proceeds from sale of plant, property and equipment		-	208
Lease incentives net of amortisation		-	999
Acquisition of other intangible assets		(3,473)	(539)
Net cash from investing activities		(7,006)	(7,389)
Cash flows from financing activities			
Interest paid		(284)	(176)
Payment of lease liabilities		(21,539)	-
Net cash from financing activities		(21,823)	(176)
Net (decrease)/increase in cash and cash equivalents		5,532	(3,629)
Cash and cash equivalents at start of period		3,362	6,991
Cash and cash equivalents at end of period	14	8,894	3,362

The notes on pages 23 to 57 form an integral part of these financial statements.

Notes to the Financial Statements*(forming part of the Financial Statements)***1. Accounting policies**

Fat Face Limited (the 'Company') is a company incorporated in England in the UK.

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

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

The preparation of financial statements requires management to exercise judgements in applying its accounting policies. It also involves the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The actual amounts may differ from the estimates.

Estimates made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year are highlighted below. On an on-going basis, these areas involve a higher degree of estimation complexity and are explained in more detail in the related notes:

- The incremental borrowing rate used to determine the value of the right of use asset and lease liability (note 1, 10 and 25);

In addition to the estimates mentioned above the following have been identified as areas that involve some degree of estimation but are not considered to be at significant risk of material adjustment within the next financial year:

- Assumptions for valuations used in impairment testing (notes 8 and 10);
- Inventory valuation and provision (note 12);
- The valuation of share-based payments at grant date and for intrinsically valued schemes, at each reporting date (note 17);
- Provisioning for dilapidations (note 18).

Measurement convention

The financial statements are prepared on the historical cost basis with the exception of derivative financial statements which are stated at their fair value.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated in the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. 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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the date of transaction the fair value was determined.

Exchange differences related to qualifying hedges are taken directly to the cash flow hedging reserve. They are released into the income statement upon disposal. Where the Company holds applicable hedged positions, the accounting policy is reported below.

Currencies

The Company uses Sterling as its presentational currency and all values have been rounded to the nearest thousand unless otherwise stated. The Company's functional currency is Sterling.

Going concern

Notwithstanding the net current liabilities of £168,582,000 (2019: 128,245,000) as at 30th May 2020, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

Further information concerning the principal activities as well as the business risks is set out on page 2 of the Strategic report.

Before the 25 September 2020, the Company was dependent on its intermediate parent company, GLQ Fulham Holdings Ltd (formerly FatFace Group Parent Limited), not seeking repayment of the amounts due to other companies in the group, which at the 30 May 2020 amounted to £158,863,000. However, on the 25 September 2020 all balances between the UK group companies were waived.

New Debt Facilities and change of ownership

On 25 September 2020, a debt and group restructure was concluded which resulted in the ownership of GLQ Fulham Holdings Ltd and its subsidiaries ('FF Group') being transferred from FatFace Group Limited, which was ultimately controlled by Bridgepoint Europe III Fund managed by Bridgepoint Advisers Limited and other shareholders to the Groups Banking syndicate.

As part of the restructure the debt was amended, resulting in the modification of the existing facilities of the FF Group as detailed in note 24. This significantly reduced the debt level of the FF Group from £165.2m as at 30 May 2020 to £25m. The new facilities comprise a New Money Term Facility of £15m, to cover the working capital needs of the business and to support the Group's strategic plan and a reinstated £10m Senior term loan facility. Group net cash at the 2 January 2021 was £12.2m (cash and cash equivalents less interest bearing loans and borrowings). The new facilities mature between 24 September 2023 and 1 May 2024. The New "minimum EBITDA" covenant thresholds with headroom against the Group's base case have been agreed as well as a minimum cash covenant. The Group's base case has been prepared based on COVID-19 trading assumptions. For further information on this restructuring please refer to note 24.

Going concern forecasts

The Company forms an integral part of the FF Group and although it is not dependent on intercompany financing following the waiver of intercompany loans, as set out above, it is reliant upon the continuation of the wider Group, in particular covenant compliance on the new debt facilities where the entity acts as a guarantor. As such, in making the going concern assessment the Directors have considered the cash flow forecasts for the FF Group.

As at the date of approving these financial statements, the impact of COVID-19 on the Group's trading is continually being assessed and is subject to change. Ecommerce trading over the three national lockdowns has been robust and outperformed initial expectations.

Base case

The Group's base case assumes the national lockdown continues until the middle of February 2021, followed by a slow and gradual recovery throughout the calendar year of 2021 with cautious cost savings, to more normalised trading levels in 2022.

The Directors have prepared as part of the base case forecasts, cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that the Group will have sufficient funds to meet its liabilities as they fall due for that period. Under the base case there would be no breach of covenants with sufficient headroom at all periods. There are no material capital repayments of debt falling due within the forecast period and the facilities do not mature until 24 September 2023 and 1 May 2024.

Downside case

The Directors believe the base case above is based upon reasonable assumptions including a phased level of recovery during the course of the calendar year of 2021. However, it is reasonably possible that the recovery profile is slower than assumed within the base case and the current national lock down is extended beyond the middle of February 2021. The Directors have therefore prepared a downside case that models an extension of the UK wide lock down until the end of March 2021 and further national lockdowns in November 2021 and January 2022.

This downside case assumes cost savings that are within management control and a boost to our ecommerce business during the lockdown periods, both of which have been informed by the experience of the lockdown in November 2020 and current trading performance. Consistent with the base case, the downside case does not give rise to a breach of the financial covenants in the revised debt facilities and the Group is forecasted to continue to operate within its committed banking facilities with headroom.

The directors have performed stress testing of this conclusion by considering other scenarios and assumptions. The greatest sensitivity in the downside case is the level of cash available to the Group at the end of the current nationwide lockdown, and therefore the judgement as to when that nationwide lockdown is assumed to end is significant to the going concern conclusion. Should the national lockdown endure for a longer period than assumed in the downside case, cash would become tighter and further management actions would be deployed in order to preserve cash and avoid breaching the financial covenants. These would include negotiations with suppliers and landlords, the availing of any further government support that may be made available and ensuring stock buying assumptions remained appropriate to the revised outlook. If the national lockdown endured through May 2020, depending on the level of savings generated through the actions described above, some of which are outside of management's control, there is the possibility that liquidity could be exhausted and the Group would have to seek further short term financing from its lenders or shareholders in order to pay its liabilities in an orderly fashion as they fell due, and to waive any covenants that would be in breach.

Based on the uncertainty surrounding the nationwide lockdown the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Non-derivative financial instruments

Non-derivative financial instruments comprise investment in equity and debt securities, trade and other receivables, cash and cash equivalents and trade and other payables.

Investments in debt and equity securities

Investments in debt and equity securities held by the Company are stated at the lower of original cost and fair value with any resultant cumulative impairment losses recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

Trade and other receivables

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

Impairments

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held); or
- the financial asset is more than 120 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance

with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows only.

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 rate method.

Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Classification of financial instruments

Financial instruments often consist of a combination of debt and equity and the Company has to decide how to attribute value to each. Instruments are treated as equity only to the extent that they meet the following conditions:

- a) where the instrument includes 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 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 and where such an instrument 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.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes direct costs incurred in bringing assets into their present condition, including certain incremental labour costs.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

<u>Asset Class</u>	<u>Depreciation Policy</u>
Freehold buildings	50 years
Leasehold land and buildings	Life of lease
<i>Equipment and fixtures:</i>	
Computer and communications equipment	3 years
Shopfit, fixtures and fittings, furniture, mannequins	5 years
Plant and machinery	4 years
Motor vehicles	4 years

Assets in the course of construction generally refers to expenditure on new stores not yet trading and are not yet depreciated. At year end our new distribution centre was part of this balance. On-going refurbishment projects in respect of existing stores are charged directly into the appropriate asset categories.

Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses.

Internally generated intangible assets arising from the Company's development activities are recognised only when all of the following conditions are met:

- an asset is created and can be identified;
- it is probable that the asset will generate future economic benefit; and
- the development costs of the asset can be measured reliably.

Where these conditions are met the costs of the asset comprise of the external direct costs of goods, and services, in addition to internal payroll related costs for employees who are directly associated with the project.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each reporting date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

<u>Asset Class</u>	<u>Amortisation policy</u>
Software and Licences	3-5 years

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Provisions are made for obsolescence, mark-downs and shrinkage.

Impairment

The carrying amounts of the Group'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.

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 respect of CGUs are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of other assets, 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.

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and treats the guarantee contract as a contingent liability unless and until it becomes probable that the Company will be required to make a payment under the guarantee.

Employee benefits

Defined contribution plan

The Company operates a defined contribution pension plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further

amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Share-based payment transactions

Some employees of Fat Face Limited have been granted shares in the ultimate parent. In these financial statements the fair value of shares acquired is recognised as an employee expense with a corresponding increase in equity.

The fair value of the shares acquired by an employee (the equity-settled share-based payment) is based on an estimate of the market value of the business, taking into account the terms and conditions upon which the shares were granted. The market value of the business is principally derived from discounted cash flow techniques, which are based on management's latest projections, growth rates and discount rates as applied to the calculated free cash flows. The resulting fair value is then allocated over a vesting period during which the employee became unconditionally entitled to the fair value of the shares or over a vesting period to the anticipated exit date (whichever is considered to be earlier).

For the tranches of C2 shares issued in 2010, the Directors of the Company considered that the fair value could not be estimated reliably. In accordance with IFRS 2 the Group adopted the intrinsic value methodology of these shares, whereby the intrinsic value of this share-based payment is re-measured at each reporting date, with changes recognised in profit or loss until the instrument is settled. This scheme was settled by 30 May 2020

In respect of cash settled share-based payments, the fair value of these awards is measured at the date of grant to the employee and allocated over a vesting period to the anticipated exit date using the same discounted cash flow valuation methodology as that is used for equity settled. This is recognised as an employee expense annually. As these awards are deemed to be cash settled their fair value will be reviewed at each reporting date with a corresponding movement in the liability being recognised at a group level.

Revenue

The Group's contracts with customers for the sale of products generally include one performance obligation being the delivery of the goods. The Group has concluded that revenue from the sale of product should be recognised at the point in time when control of the asset is transferred to the customer or wholesaler i.e. on the delivery of the product.

Revenue arising from the sale of gift vouchers and gift cards is deferred and recognised at the point of redemption.

Royalties on licensed products are recognised based on sales statements received from product license partners, to reflect delivery of the product, typically invoiced quarterly.

Revenue is measured at the fair value of the consideration received or expected to be receivable. Revenue is recorded excluding Value Added Tax and is reduced for actual and estimated customer returns, discounts, rebates and other similar allowances.

Present obligations for the actual and estimated customer returns are recognised and measured as provisions when it is probable that the Group will be required to settle the obligation under sales contracts. Returns provisions in existence at the balance sheet date are expected to be utilised within

12 months, the provision is recalculated at each balance sheet date taking into account recent sales and anticipated levels of returns.

Expenses*Costs of inventories recognised as an expense*

Cost of inventories recognised as an expense represents variable expenses (excluding VAT and similar taxes) incurred from revenue generating activity. Product sold by the Company is the principal expense included under this category.

Operating lease payments (policy applicable before 2 June 2019)

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and are therefore also recognised on a straight-line basis over the term of the lease.

Net finance costs

Net finance costs comprise interest payable, interest receivable on funds invested and foreign exchange gains and losses that are recognised in the income statement. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method

Non-recurring items

Non-recurring items comprise of material items of income and expense which are not considered to be part of the normal operations of the Company. These are separately disclosed on the face of the income statement in arriving at operating profit to assist with the understanding of the financial statements.

Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that the Company will be required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

Dilapidation provisions are recorded where landlords' assets have been consumed or damaged during a lease and a cost is anticipated to be incurred in restoring these assets.

Asset retirement provisions are recorded at the outset of a lease when company assets are installed in a landlord's premises and a material cost is anticipated to remove them at the end of the lease term. Such provisions are calculated based on the anticipated cost of removal today, as adjusted for expected inflation over the lease term, with these cash flows being discounted to result in the provision. Changes in the estimate of the gross cost of removing assets are capitalised into plant, property and equipment.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement 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 on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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 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 reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. Taxation is recognised directly in Other Comprehensive Income when the taxable items are accounted for there

Grant income

For the Job Retention Scheme grant income, the income will be recognised in the period to which the underlying furloughed staff costs relate to. The payroll liability has been incurred by the entity, and it has therefore met the conditions to claim for that payroll accounting period. The income has been offset against staff costs in the Income statement.

Leases (policy applicable from 2 June 2019)

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

On transition lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate and the right-of-use assets were measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if the Company changes its assessment of whether it will exercise an extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Incremental borrowing rate

Management have estimated the incremental borrowing rate, which is used to calculate the lease liability. The group has used third party specialists to help with the methodology and the data which is used to calculate the incremental borrowing rates. The group has used its third-party financing as a proxy, together with risk-free interest rates which are adjusted for property yields based on location. These are then further adjusted for the individual lease type, lease term, country that the asset is present in, the currency used to make payments and the security of the asset.

The Group considers that due to the nature of the incremental borrowing rates such estimates have a large range of reasonably possible outcomes. If the incremental borrowing rate increased by 1%, the lease liability and right of use asset would decrease by £2.4m and £3.6m respectively as at 30 May 2020.

As a lessor

At inception or on modification of a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract applying IFRS 15.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'. Generally, the accounting policies applicable to the Group as a lessor in the comparative period under IAS 17 were not different from IFRS 16

Adopted IFRSs not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2020).
- Amendments to IFRS 3: Definition of a Business (effective date to be confirmed).
- Amendments to IAS 1 and IAS 8: Definition of Material (effective date 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective date to be confirmed).

New and revised IFRSs

The Group has adopted the following IFRSs in these financial statements:

- IFRS 16: Leases. See note 25. This has been adopted using the modified retrospective method and as a result the comparatives have not been restated and are reported under IAS 17.
- IFRIC 23: Uncertainty over Income Tax Treatments. No material differences have arisen from transitioning to the new standard.
- Amendments to IFRS 9: Prepayments Features with Negative Compensation. No material differences have arisen from transitioning to the new standard.
- Annual Improvements to IFRS Standards 2015-2017 Cycle. No material differences have arisen from transitioning to the new standard

2. Revenue and other income

	2020	2019
	£000	£000
Sale of goods	197,985	236,035
Rent receivables	87	113
Royalties	166	271
	<u>198,238</u>	<u>236,419</u>

All revenue is at a point in time.

Revenue by geographical location	2020	2019
	£000	£000
United Kingdom	187,563	228,578
Rest of World	10,675	7,841
	<u>198,238</u>	<u>236,419</u>

Contract balances	2020	2019
	£000	£000
Contract liability (current)	<u>2,554</u>	<u>2,511</u>

The contract liability balance primarily relates to gift cards and gift vouchers held by customers.

The amount of revenue recognised in the current period that was included in the deferred income balance at the beginning of the period was £6,285,000. In addition, the deferred income balance increased due to cash received, excluding amounts recognised as revenue during the period of £6,328,000.

3. Expenses and Auditor's Remuneration

Included in the profit for the period are the following non-recurring items:

	2020 £000	2019 £000
Staff expenses:		
Staff restructuring costs expensed as incurred ⁴	968	816
Other operating expenses:		
Costs relating to onerous lease on old distribution centre ⁵	-	1,461
Professional fees ⁶	2,572	-
Non-recurring items included within operating profit	3,540	2,277
Impairment of group receivables ⁷	32,356	288,234
Share-based payments (see note 17)	-	(3,608)
Non-recurring items before income tax	35,896	286,903
Non-recurring items income tax (credit)	(672)	(433)
Non-recurring items for the period	35,224	286,470
	2020 £000	2019 £000
Other charges/(credits):		
Inventories loss recognised as an expense in the period	1,980	1,804
Depreciation of tangible assets	7,431	6,579
Impairment of tangible assets	329	1,121
(Profit)/loss on disposal	167	(48)
Amortisation	1,499	1,396
	11,406	10,852

⁴ Staff restructuring costs relate to the exit costs of Board members plus severance of Head Office employees during the prior year. Also included is re-incentivisation of senior managers during the period of management change. The cost of this restructure appears in both the current and prior year as the restructure overlapped the 2019 year end.

⁵ Rent, rates and dilapidation costs on the onerous element of the old distribution centre.

⁶ Professional fees relate to costs in relation to the Group refinance and restructure which completed on the 25th September 2020. See Note 24 for further detail.

⁷ The impact of the restructuring and subsequent sale of the Group as noted in point 6, and the impact of COVID-19 has resulted in unprecedented impairments of intangibles and other group assets. See note 13 for further details.

	2020 £000	2019 £000
Auditor's Remuneration:		
Audit of these financial statements	55	38
	<u>55</u>	<u>38</u>

4. Staff Numbers and Costs

The average number of persons employed by the Company, excluding Directors, during the period, analysed by category was as follows:

	2020	2019
Fat Base (Head Office)	292	294
Distribution centre	121	111
Stores	2,262	2,418
Total	<u>2,675</u>	<u>2,823</u>

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	30,577	36,104
Social security costs	2,093	2,251
Other pension costs	850	793
Healthcare costs	171	154
Total trading expense before share-based payments	<u>33,691</u>	<u>39,302</u>
Non-recurring staff costs (see note 3)	968	816
Total expense before share-based payments	<u>34,659</u>	<u>40,118</u>
Share-based payments (see note 17)	-	(3,608)
Total	<u>34,659</u>	<u>36,510</u>

During the period the company received grant income of £4,370,000 related to the Job Retention Scheme which have been presented as an offset to the wages and salaries cost. The only condition to be fulfilled is that the claim is valid in line with Government Guidelines.

5. Director's Emoluments

Directors' emoluments on behalf of the Company are as follows:

	2020 £000	2019 £000
Directors' emoluments	1,039	1,599
Company contributions to defined contribution pension plans	14	10
Share-based payments	-	-
Total before non-recurring items	<u>1,053</u>	<u>1,609</u>
Non-recurring Directors' emoluments and share-based payments	602	(3,979)
Total	<u>1,655</u>	<u>(2,370)</u>

The Directors are employed by FatFace Group. The Director's emoluments although paid through Fat Face Limited have been charged to FatFace Group in the year and are in respect of their qualifying services for the Group. Key management personnel are considered to be the Directors and current senior management of the Group. The emoluments of these is disclosed in note 22.

The aggregate of emoluments of the highest paid Director was £1,333,000 (2019: £817,000) and company pension contributions of £nil (2018: £nil) were made to a defined contribution scheme on their behalf.

Of the Directors' remuneration, £684,000 (2019: £980,000) related to qualifying services for the Company.

	Number of Directors	
	2020	2019
Retirement benefits are accruing to the following number of Directors under defined contribution benefit plans:	2	1

The amount accrued in respect of Directors' pensions at 30 May 2020 was £2,000 (2019: £1,000).

6. Finance Income and Costs

	2020	2019
	£000	£000
Bank interest income	14	15
Net foreign exchange gain	468	21
Other group companies	43,970	27,189
Finance income	44,452	27,225
Bank interest expense	284	176
Other group companies	20,727	11,695
Interest on lease liabilities	6,142	-
Finance cost	27,153	11,871

In accordance with the Group's transfer pricing policy, interest on group balances is charged at 15.0% (2019: 10.1%)

7. Taxation**Recognised in the income statement**

	2020 £000	2019 £000
Current tax expense		
Current year	1,668	3,716
Adjustments for prior years	(823)	(590)
Total current tax	<u>845</u>	<u>3,126</u>
Deferred tax expense		
Current year	11	(127)
Adjustments in respect of previous periods	(141)	(48)
Deferred tax rate change	(260)	14
Total deferred tax	<u>(390)</u>	<u>(161)</u>
Total tax in income statement	<u><u>455</u></u>	<u><u>2,965</u></u>
	£000	£000
Profit/(loss) before tax	<u>(28,549)</u>	<u>(268,404)</u>
Tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	(5,424)	(50,997)
Non-deductible expenses	7,103	54,586
Over provided in prior years	(964)	(638)
Rate difference on deferred tax	<u>(260)</u>	<u>14</u>
Total tax in income statement	<u><u>455</u></u>	<u><u>2,965</u></u>

Factors affecting the tax expense in the year

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax charge accordingly. The deferred tax asset at balance sheet date has been calculated at 19% (2019: 17%).

8. Property, Plant and Equipment

	Asset in the course of construction £000	Short leasehold land and buildings £000	Equipment and fixtures £000	Motor Vehicles £000	Total £000
Cost					
Balance at 2 June 2018	408	6,584	91,870	87	98,949
Transfers between categories	(299)	14	285	-	-
Additions	20	476	7,576	-	8,072
Disposals	-	(462)	(3,439)	-	(3,901)
Balance at 1 June 2019	129	6,612	96,292	87	103,120
Transfers between categories	(129)	-	129	-	-
Additions	57	376	3,114	-	3,547
Disposals	-	(280)	(9,339)	(14)	(9,633)
Balance at 30 May 2020	57	6,708	90,196	73	97,034
Depreciation and impairment					
Balance at 2 June 2018	-	(2,360)	(72,546)	(87)	(74,993)
Depreciation charge for the period	-	(475)	(7,831)	-	(8,306)
Impairment	-	-	(1,121)	-	(1,121)
Disposals	-	413	3,328	-	3,741
Balance at 1 June 2019	-	(2,422)	(78,170)	(87)	(80,679)
Depreciation charge for the period	-	(685)	(6,746)	-	(7,431)
Impairment	-	-	(329)	-	(329)
Disposals	-	252	9,264	14	9,530
Balance at 30 May 2020	-	(2,855)	(75,981)	(73)	(78,909)
At 2 June 2018	408	4,224	19,324	-	23,956
At 1 June 2019	129	4,190	18,122	-	22,441
At 30 May 2020	57	3,853	14,215	-	18,125

Cost includes direct costs incurred in bringing assets into their present condition, including certain incremental labour costs.

After reviewing the trade of individual stores and comparing the discounted future cash flows of these with the assets held within each store it was determined that an impairment should be recognised of £329,000 (2019: £1,121,000) due to the forecast value in use of the stores being lower than the assets carrying amount.

The depreciation charge is recognised in the following line items in the income statement together with the amortisation of lease incentives held on the statement of financial position and amortised over the life of the lease:

	2020 £000	2019 £000
Depreciation of property, plant and equipment		
Tangible assets depreciation	7,431	8,306
Unwinding of deferred lease incentives	-	(1,727)
Total depreciation and lease amortisation	<u>7,431</u>	<u>6,579</u>

Under IFRS 16 (effective from 2 June 2019) lease incentives have been capitalised as part of the right of use asset, hence the current year unwind is £nil.

Impairment testing

The Group's management has reviewed the carrying value of property plant and equipment ("PPE"), and right of use asset ("ROUA") for possible impairment based on the lowest level at which its performance can be monitored. This may be at individual cash generating units ("CGUs") or groupings of CGUs. The Group has determined its PPE and ROUA can be monitored on an individual store level.

The process of impairment testing is intended to estimate the recoverable amount of an asset and recognise an impairment loss whenever the carrying amount of an asset exceeds the recoverable amount.

The Group conducts impairment testing on PPE and ROUA annually to determine whether there is any indication of impairment. The impact of the restructuring and subsequent sale of the Group (see note 24) and COVID-19 indicated that the value in use of the Group as at 30 May 2020 was £72,000,000, as such an impairment was required in the period of £2,460,000 against PPE and ROUA.

Key assumptions

Income stream forecasts

Cashflow forecasts derived from the Business Plan cover five years, starting from the end of the current financial year. No perpetuity growth rate has been applied to the store CGUs.

Cost growth forecasts

Costs are assumed to grow at an assumed inflation rate in conjunction with a reasonable increase in costs to support the continued expansion, this is consistent with the prior period.

Discount rate

The Group's weighted average cost of capital (WACC) has been used as a discount rate in the calculation, adjusted to arrive at a post-tax rate. The post-tax discount rate has been estimated at 15.0% (2019: 13.0%). The pre-tax discount rate has been estimated at 15.3% (2019: 14.4%).

Changes to these estimates and assumptions could materially impact the fair value estimates and as such, sensitivities around these are carried out.

Sensitivity

As Part of the impairment review management considered reasonably possible changes in key assumptions. Sensitivity analysis has been performed on the key assumptions, as at the 30 May 2020 these indicated sufficient head room.

9. Intangible Assets

	Software £000
Cost	
Balance at 2 June 2018	9,902
Additions during this period	539
Disposals during the period	-
Balance at 1 June 2019	<u>10,441</u>
Additions during this period	3,473
Disposals during the period	(4,889)
Balance at 30 May 2020	<u>9,025</u>
Amortisation and Impairment	
Balance at 2 June 2018	(6,571)
Amortisation for the period	(1,396)
Impairment	-
Disposals	-
Balance at 1 June 2019	<u>(7,967)</u>
Amortisation for the period	(1,499)
Impairment	-
Disposals	4,831
Balance at 30 May 2020	<u>(4,635)</u>
Net book value	
At 2 June 2018	<u>3,331</u>
At 1 June 2019	<u>2,474</u>
At 30 May 2020	<u>4,390</u>

10. Leases**Right of use assets**

	Land and buildings £000
Balance at 2 June 2019	85,243
Additions to right-of-use assets	12,929
Depreciation charge for the year	(16,132)
Modification of right-of-use assets	(6,622)
Impairment (See note 8 for further disclosure)	(2,131)
Balance at 30 May 2020	<u>73,287</u>

Lease liability

	£000
Maturity analysis – contractual undiscounted cash flows	
Less than one year	(23,928)
One to five years	(67,520)
More than five years	(22,999)
Total undiscounted lease liabilities at 30 May 2020	<u>(114,447)</u>

Lease liabilities included in the statement of financial position at 30 May 2020

Current	(19,949)
Non current	(77,433)
	<u>(97,382)</u>

Amounts recognised in profit or loss

	£000
30 May 2020 - Leases under IFRS 16	
Interest expense on lease liabilities	6,142
Lease modification (gain)/loss	(585)
Expenses relating to leases of low-value assets accounted for as operating expenses	57
Expenses relating to variable lease payments not included in the measurement of lease liabilities	401
Sub-lease income	(87)

1 June 2019 – Operating leases under IAS 17

Operating lease expense	<u>25,005</u>
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Amounts recognised in the statement of cashflows

	2020 £000
Total cash outflow for leases	<u>21,539</u>

11. Deferred Tax Assets and Liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributed to the following:

	Assets	Assets	Liabilities	Liabilities	Net	Net
	2020	2019	2020	2019	2020	2019
	£000	£000	£000	£000	£000	£000
Property, plant and equipment	(2,289)	(1,884)	-	-	(2,289)	(1,884)
Foreign currency derivative instruments	-	-	-	215	-	215
Accruals	(222)	(203)	60	26	(162)	(177)
Tax (assets)/liabilities	(2,511)	(2,087)	60	241	(2,451)	(1,846)
Net of tax (assets)/liabilities	-	-	-	-	-	-
Net tax (assets)/liabilities	(2,511)	(2,087)	60	241	(2,451)	(1,846)

Movement in deferred tax during the year	1 June 2019	Recognised in income	Recognised in equity	30 May 2020
	£000	£000	£000	£000
Property, plant and equipment	(1,884)	(405)	-	(2,289)
Foreign currency derivative instruments	215	-	(215)	-
Accruals	(177)	15	-	(162)
	(1,846)	(390)	(215)	(2,451)

Movement in deferred tax during the prior year	2 June 2018	Recognised in income	Recognised in equity	1 June 2019
	£000	£000	£000	£000
Property, plant and equipment	(1,767)	(117)	-	(1,884)
Foreign currency derivative instruments	(18)	-	233	215
Accruals	(133)	(44)	-	(177)
	(1,918)	(161)	233	(1,846)

12. Inventories

	2020	2019
	£000	£000
Finished goods and goods for resale	25,607	35,494
Cost of inventories recognised as an expense	79,218	104,108

All inventories are expected to be sold within 12 months.

Inventory provisions comprise amounts in respect of inventories expected to be sold at less than cost price, together with an estimate of inventory shrinkage. The value of inventories expected to be sold at less than cost price is determined based on historic cost, current sales price, together with volumes held. The estimate of inventory shrinkage is calculated based on historic data of levels of inventory adjustments not recognised through the stock take process.

13. Trade and Other Receivables

	2020	2019
	£000	£000
Amounts due from Group companies	2,550	7,837
Prepayments	4,498	4,467
Trade receivables	1,082	2,722
	8,130	15,026

As at 30 May 2020, £154,000 (2019: £368,000) of the trade receivables balance was overdue. Before the signing of these financial 100% (2019: over half) of the overdue balance was recovered. Receivables of £28,000 (2019: £64,000) have been provided against at the end of the period.

Of trade receivables, 100% (2019: 100%) are in respect of UK debtors. Trade receivables mostly arise from the Company's wholesale and sale or return operations. No collateral is held against the outstanding amounts and no other amounts are past due except as disclosed. The maximum credit risk from financial assets is £1,082,000 (2019: £2,722,000).

All group receivables are recoverable on demand. Management has analysed forecast future cash flows of the Group, and as a result an impairment of £32,356,000 was deemed necessary. The remaining group receivable balances are considered recoverable.

14. Cash and Cash Equivalents

	2020	2019
	£000	£000
Cash and cash equivalents per statement of financial position and per cash flow statement	8,894	3,362

15. Other Financial Assets and Financial Liabilities

	2020	2019
	£000	£000
Current derivative financial assets		
Foreign currency derivatives classified as other financial assets/(liabilities)	-	1,270
	<u> </u>	<u> </u>

16. Trade and Other Payables

	2020	2019
	£000	£000
Current		
Amounts due to Group companies	158,863	131,317
Trade payables	14,259	32,499
Non-trade payables and accrued expenses	7,623	11,155
	<u>180,745</u>	<u>174,971</u>
Non-Current		
Accrued expenses	-	3,756
Deferred lease incentives	-	7,054
	<u>-</u>	<u>10,810</u>

All Company payables are payable on demand. Current other payables are expected to be paid within 12 months.

17. Employee Benefits**Defined contributions plan**

The Company operates a defined contribution pension plan. The total expense relating to this plan in the current year was £nil (2019: £793,000). The total owed to the plan at the end of the year was £186,000 (2019: £169,000). The total owed by the plan at the year end was £nil (2019: £nil).

Share-based payments

Certain senior management of Fat Face Limited are invited to become shareholders in the ultimate parent. 'B' 'C1A' 'C2' and 'D' ordinary shares are offered at a price reflecting the performance and future prospects of the business.

A Joint Share Ownership Plan (JSOP) exists whereby certain senior management employees ("the Participants") are awarded the right to purchase a designated number of 'C2' ordinary shares within the scheme. This will give the Participants access to a share in the future value of each 'C2' ordinary share within the scheme above a predetermined threshold.

The Articles of Association of the Company ('the Articles') define 'Good Leavers' and 'Bad Leavers', where a 'Bad Leaver' is an employee-shareholder leaving the business because of voluntary resignation or termination in circumstances justifying summary dismissal. All other employee-shareholders leaving the business are 'Good Leavers'. On leaving the business, the Articles require

that a Bad Leaver surrenders their 'B', 'C1A', 'C2' and 'D' shares ordinary shares and JSOP rights at the lower of fair value and the cost for which the shares were acquired. On leaving the business, the Articles require that a Good Leaver sells their 'B', 'C1A', 'C2' and 'D' ordinary shares and JSOP rights as directed by the majority investors at a value between cost and fair value calculated by reference to length of service. It is expected that the shares will be surrendered to other employee-shareholders in the business.

Equity settled share awards

Within the financial statements, the fair value of shares acquired is recognised as an employee expense (a share-based payment) with a corresponding increase in equity. The fair value of share grants is measured at the date of grant to the employee.

The fair value of the shares is measured based on an estimate of the market value of the business, taking into account the terms and conditions upon which the shares were granted. The market value of the business is principally derived from discounted cash flow techniques, which are based on management's latest projections, growth rates and discount rates as applied to the calculated free cash flows. The resulting fair value is then allocated over a vesting period during which the employee becomes unconditionally entitled to the value of the shares or over a vesting period to the anticipated exit date (whichever is considered to be earlier). Management estimate the anticipated exit date at the time the shares were granted. The value of the JSOP award is based on the same methodology but has excluded any value in the share up to the predetermined threshold.

During the prior year a new class of share ('D' class) was introduced to incentivise management. This created an associated equity-based charge.

The share-based payment charge in the year for the equity settled awards is £nil (2019: £nil).

Cash settled share awards

Part of the value in the JSOP below the predetermined threshold has been allocated out to fund what has been determined to be cash settled share-based payments. A further cash settled share-based payment exists which will be paid ahead of proceeds to equity holders of the Group. The fair value of these awards are measured at the date of grant to the employee and allocated over a vesting period to the anticipated exit date.

As these awards are deemed to be cash-settled their fair value will be reviewed on an annual basis with a corresponding liability being recognised.

Intrinsically valued equity settled share awards

Of the C2 ordinary share awards that are outstanding, the tranche of shares that were granted during 2009/10 were intrinsically valued. At that point in time the Directors of the Group considered that the fair value could not be estimated reliably. In accordance with IFRS 2 the Group adopted the intrinsic value methodology for these shares, whereby the intrinsic value of the share-based payment is re-measured at each reporting date, with changes recognised in profit or loss until the instrument is settled. During 2018/19 management restructuring resulted in a number of these awards being forfeited and no further charges have been made.

Grant date	Number of instruments outstanding 2020	Charged to income 2020 £000	Number of instruments outstanding 2019	Charged to income 2019 £000
Award of 'C1A' ordinary shares granted	33,685,608	-	33,685,608	-
Award of 'C2' ordinary shares granted	9,026,689	-	9,026,689	(3,247)
Award of 'C2' JSOP ordinary shares granted	1,000,000	-	1,000,000	-
Award of cash settled share-based payments	N/a	-	N/a	(361)
Total expense recognised for the year		<u>-</u>		<u>(3,608)</u>

18. Provisions

	Onerous lease provision £000	Asset retirement and Dilapidation provision £000	Total £000
Balance at 2 June 2018	1,608	3,398	5,006
Provision utilised during the year	(204)	(196)	(400)
Provision released during the year	(25)	(245)	(270)
Provision created during the year	1,333	327	1,660
Balance at 1 June 2019	<u>2,712</u>	<u>3,284</u>	<u>5,996</u>
Impact of change in account policy (see note 25)	(2,712)	-	(2,712)
Provision utilised during the year	-	(367)	(367)
Provision released during the year	-	(26)	(26)
Provision created during the year	-	554	554
Balance at 30 May 2020	<u>-</u>	<u>3,445</u>	<u>3,445</u>
2020			
Current	-	287	287
Non-current	<u>-</u>	<u>3,158</u>	<u>3,158</u>
2019			
Current	367	263	630
Non-current	<u>2,345</u>	<u>3,021</u>	<u>5,366</u>

Where the Company will no longer trade from a leased property, either due to the lease expiring or as a result of other considerations, a review is carried out to determine whether a dilapidations provision is required.

A dilapidations provision is made to cover the cost of returning properties to the condition required by the lease upon exit from the lease. A dilapidations provision is based on management's assessment of the store relocation programme and the current state of properties in the Company's portfolio. Onerous lease and dilapidation provisions are reviewed on a lease by lease basis.

19. Capital and Reserves**Share Capital****In thousands of shares**

	Ordinary Shares 2020 £000	Ordinary Shares 2019 £000
On issue at period end - fully paid	300	300
	2020 £000	2019 £000
Allotted, called up and fully paid		
Ordinary shares of £1 each	300	300
Shares classified in equity	300	300

The holders of ordinary shares are entitled to receive dividends from time to time and are entitled to one vote per share at meetings of the Company.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Capital contribution reserve

The capital contribution reserve arises from deemed contributions received in relation to share-based payment schemes with a corresponding increase in the investment in subsidiaries.

Dividends declared and paid

The Directors are not proposing a dividend in respect of the period ended 30 May 2020 (2019: £nil).

20. Financial Instruments

20(a) Fair values of financial instruments

Fair value hierarchy

The Company analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Trade and other receivables

Trade and other receivables are recognised at fair value. Subsequent to initial recognition they are measured at amortised cost using effective interest rate method. All trade and other receivables are expected to be short term and therefore no discounting of value is appropriate. The fair value of trade and other receivables approximate the carrying values. The trade and other receivables are a Level 2 fair value instrument in terms of the fair value hierarchy.

Trade and other payables

Trade and other payables are recognised at fair value. Subsequent to initial recognition they are measured at amortised cost using effective interest rate method. All trade and other payables are expected to be short term and therefore no discounting of future cash flows is appropriate. The fair value of trade and other payables is approximately the carrying values. The trade and other payables are a Level 2 fair value instrument in terms of the fair value hierarchy.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated at its carrying amount. The cash and cash equivalents are a Level 2 fair value instrument in terms of the fair value hierarchy.

Derivative financial instruments

The fair value of forward exchange contracts is estimated by reference to the difference between the contractual forward price and the current forward price for the residual maturity of the contract. The contracts are a Level 2 fair value instrument in terms of the fair value hierarchy.

In estimating fair value for foreign exchange derivatives, the Company uses future US dollar exchange rates derived from published forward currency rates.

The fair values together with the carrying amounts shown in the statement of financial position are as follows:

	Carrying amount	Fair value	Carrying amount	Fair value
	2020	2020	2019	2019
	£000	£000	£000	£000
Trade and other receivables	8,130	8,130	15,026	15,026
Derivative financial asset/(liability)	-	-	1,270	1,270
Cash and cash equivalents	8,894	8,894	3,362	3,362
Trade and other payables	(180,745)	(180,745)	(174,971)	(174,971)
	<u>(163,721)</u>	<u>(163,721)</u>	<u>(155,313)</u>	<u>(155,313)</u>

There have been no transfers between levels in either period.

20(b) Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions and from the Company's receivables from customers.

The Company's operations are principally retail and so the exposure to credit risk is minimal. The Company periodically reviews its receivables and makes appropriate allowances where recovery is deemed to be doubtful.

The allowance account for trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

20(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company is in a strong cash position and retains ample headroom in its available working capital. Through its ultimate parent company, it has access to revolving credit facilities totalling £18m. A further £6.9m of funds are available to be utilised in part for letters of credit, guarantees, documents in trust and supplier financing. Any unutilised balances are available to be utilised and drawn as cash facilities for the Group to fund day-to-day overdrafts as and when required. See the parent statutory accounts for a description of liquidity risk of the Group (note 23).

20(d) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

The Company uses forward foreign exchange hedges to manage its exposure to changes in foreign exchange.

Aside from changes that are reflected in those variables, the Company has only limited exposure to changes in raw material prices since these represent a relatively small part of the business's costs. UK labour costs tend to follow UK inflation rates and can therefore be reflected in selling prices and overseas labour costs to be relatively inflexible to the extent that they are passed on to UK distributors.

FatFace monitors its pricing proposition against major competitors.

Market Risk - Foreign currency risk

The Company imports finished goods from overseas, a significant portion of which are settled in US dollars. In accordance with the Group's Treasury Policy, the Company manages the risk of foreign exchange fluctuations through foreign exchange forward contracts and options.

The total purchase in US dollars for each season is estimated in advance. The Company takes contracts allowing the purchase of dollars between a range of dates at a fixed dollar rate. As US dollar payments are made, dollars are called down from those contracts to cover the exposure. Although at the time of purchase, fixed orders have not been placed for the product, the expected payment profile can be predicted with a high degree of accuracy.

Due to the variability of exchange rates, the Company takes a succession of smaller dollar contracts to benefit from day-to-day fluctuations in rates. These have been combined with upper and lower triggers in order to ensure that the Company's exchange risk is still controlled.

Fair value is determined by obtaining a market price valuation from the relevant broker.

As at 30 May 2020, the company had no fixed forward cover contracts. As at 1 June 2019, the Company had fixed forward cover contracts in place in respect of \$26.01m expiring by February 2020 with a fair value gain of £1,138,000 based on a year end US/GBP rate of \$1.26/£1. The Company also had hedging options in place totalling \$2.8m with a fair value gain of £131,000 as at 1 June 2019.

Management have tested the effectiveness of these hedging relationships and concluded that they meet the requirements for hedge accounting. The effect of the hedged exchange rate is released to the profit and loss account as the purchases are made. No further impact to cash flow is expected.

To a lesser extent some goods are purchased in Euros. However, in accordance with the Group's Treasury policy further hedging at current forecast purchasing levels is not required.

For further details of the Group's exposure to foreign exchange risk please refer to the GLQ Fulham Holdings Ltd consolidated accounts (note 23).

The Company's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments, except for derivatives which are based on notional amounts.

At 30 May 2020	Sterling £000	Euro £000	US Dollar £000	Other £000	Total £000
Cash and cash equivalents	8,324	53	514	3	8,894
Short term receivables	1,082	-	-	-	1,082
Trade payables	(9,197)	(2,768)	(2,294)	-	(14,259)
Forward foreign exchange contracts	-	-	-	-	-
Statement of financial position exposure		(2,715)	(1,780)	3	
Estimated forecast sales		3,486	-	-	
Estimated forecast purchases		(8,095)	(41,409)	-	
Net exposure		(7,324)	(43,189)	3	

* Next twelve months; approximates to two trading seasons.

Sensitivity Analysis

In managing its foreign currency risk, the Company aims to reduce the impact of short-term fluctuations on the Company and Group's earnings. The impact of a movement of \$0.01 in USD and €0.01 exchange rates in the 2020/21 financial year on the Company is estimated to be £348,000 and £66,000 respectively. Following the EU referendum, it was agreed with a number of suppliers to move to USD payments to better reflect their input cost currencies therefore increasing our USD requirement. Over the longer-term permanent changes in foreign exchange rates would have an impact on consolidated earnings. This impact would be mitigated by many factors both internal and external, making it impossible to estimate the final size of that impact reliably.

Market Risk - Interest rate risk

The Directors do not believe that the Company suffers a material interest rate risk.

While the Company is funded by floating rate debt from a fellow Group company, interest rate hedging was undertaken by a member of the Group. As such, interest rate sensitivity analysis is prepared on a Group basis, and is available in the Group financial statements, available as shown in note 23.

20(e) Capital Management

The Directors do not believe that the Company suffers a material capital management risk. The Company ability to continue to trade as a going concern contributes towards the Group's objective when managing capital which is available in the Group financial statements, available as shown in note 23. The Group's banking facilities are held outside the Company, as such the Company is not subject to covenant compliance.

20(f) Guarantees

The Company is an obligor and joint guarantor of the Group's banking facilities held in the name of a fellow Group company, FatFace Group Borrowings Limited. The values of those facilities at the reporting date are shown below:

At 1 June 2019	Currency	Nominal interest rate Cash paid	Nominal PIK interest	Year of final maturity	Face value £000	Carrying amount £000
Facility B	£	LIBOR+5.75%	-	2020	102,235	102,235
Facility D1	£	LIBOR+5.75%	-	2021	17,778	17,778
Facility D2	£	-	LIBOR+5.75%	2021	25,433	24,041
Revolving facility	£	LIBOR+4.00%	-	2020	-	-
					<u>145,446</u>	<u>144,054</u>

At 30 May 2020	Currency	Nominal interest rate Cash paid	Payment in Kind	Year of final maturity	Face value £000	Carrying amount £000
Facility B	£	LIBOR+5.75%	-	2020	102,235	102,235
Facility D1	£	LIBOR+5.75%	-	2020	17,778	17,778
Facility D2	£	-	LIBOR+5.75%	2020	27,197	27,197
Revolving facility	£	LIBOR+4.00%	-	2020	18,000	18,000
					<u>165,210</u>	<u>165,210</u>

Post year end the existing Senior B, Senior D loans, D2 debt, and the drawdown balance of the Revolving Credit Facility was amended into £10m Senior Term Facility and a Holdco PIK Facility (see note 24 for further detail).

21. Capital Commitments

At 30 May 2020, the Company had entered into contracts to open new stores and develop the Group's IT infrastructure, which will require estimated capital expenditure of £776,000 (1 June 2019: £1,811,000).

22. Related Parties

Directors of the Company control 0.5% (2019: 0.5%) of the voting shares of FatFace Group Limited.

Key management personnel are considered to be the current senior management of Fat Face Limited and the Directors remuneration associated to Fat Face Limited. The emoluments of these individuals during the period were as follows:

	2020 £000	2019 £000
Wages and salaries	2,463	2,276
Company contributions to defined contribution pension plans	45	33
Total	2,508	2,309

Pepco Services LLP and Moneycorp Financial Risk Management Ltd are both related parties by virtue of sharing with the Group the mutual ultimate controlling party of Bridgepoint at the report date. During the year services totalling £27,000 (2019: £41,000) were provided by Pepco Services LLP, and US forward contracts totalling £15,508,000 (2019: £5,730,000) were traded with Moneycorp Financial Risk Management Ltd. As at 30 May 2020 £nil (2019: £10,000) was owed to Pepco Services LLP, and £nil (2019: £890,000) was recognised as an asset in relation to Moneycorp Financial Risk Management Ltd.

23. Ultimate Parent Company and Parent Company of Larger Group

During the reporting period the Company was a subsidiary undertaking of Fat Face Holdings Limited. The ultimate parent company, FatFace Group Limited, was incorporated in England. The ultimate controlling party was Bridgepoint Europe III Fund managed by Bridgepoint Advisors Limited, which owns a majority of shares in the ultimate parent on behalf of various funds.

Subsequent to the year end the Group has been restructured and Fat Face Group Limited disposed of GLQ Fulham Holdings Ltd Limited (formerly FatFace Group Parent Limited) and its subsidiaries. The directors are therefore in the process of liquidating Fat Face Group Limited. For further information of the restructure refer to note 14.

The largest group in which the results of the Company are consolidated is that headed by GLQ Fulham Holdings Ltd. The consolidated financial statements of the Group are available to the public at Unit 1-3 Ridgway, Havant, Hampshire, PO9 1QJ. The ultimate controlling party following the restructure is Fulham Topco Limited.

24. Subsequent events

Lender led debt and capital restructuring

At the date of signing the financial statements a group restructure involving third party lenders has been completed which, among other things, transferred ownership of GLQ Fulham Holdings Ltd from FatFace Group Limited to GLQ Holdings (UK) Ltd, an entity owned by an existing member of the Banking Syndicate. This restructuring involved a number of steps outlined below which all formed part of a single, integrated plan:

- GLQ Fulham Holdings Ltd transferred FatFace Group Borrowings Limited and its subsidiaries (the operating group of Fat Face) to a newly incorporated entity, Fulham Topco Limited.
- The ownership of GLQ Fulham Holdings Ltd was transferred from its parent company FatFace Group Limited to GLQ Holdings (UK) Ltd.
- GLQ Fulham Holdings Ltd ended up owning 23% of Fulham Topco Limited, with the remaining 77% will be owned by the remaining Participating Lenders.
- A bridging loan of £5m was made available to be drawn down between the Deed being agreed and Completion, this was repayable at Completion from a New Money Term Super Senior Term Facility. Completion occurred on 25 September 2020.
- The New Money Super Senior Term Facility was made available at Completion to be drawn down for up to £15m with a maturity date of 24 September 2023, as well as a £5m Super Senior Ancillary Facility which matures 12 months after the Completion of the restructuring.
- The existing Senior B, Senior D loans, and D2 debt of £147m as at 30 May 2020 and the drawdown balance of the Revolving Credit Facility at the time of the exercise totalling £18m was amended into
 - A £10m Senior Term Facility with a maturity date of 1 May 2024.
 - A Holdco PIK Facility of £124.3m which sits in Fulham Midco Limited (a newly incorporated entity that is an intermediate parent entity to FatFace Group Borrowings Limited and its subsidiaries) on a non-recourse basis to the rest of the FatFace Group.
- Net Leverage covenants have been amended and new minimum liquidity and minimum EBITDA covenants have been introduced to reflect the current post COVID-19 trading outlook and to provide a greater level of headroom to the Group.

Banking covenants and waivers

The restructuring exercise has resulted in any defaults on covenants that have occurred throughout the year being fully waived.

25. Change in significant accounting policies

The Company has applied IFRS 16 using the modified retrospective with cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity at 2 June 2019. Therefore, the comparative information has not been restated and continues to be reported under IAS 17. The disclosure requirements in IFRS 16 have not been applied to comparative information. The details of the changes and quantitative impact are set out below.

Definition of a lease

Previously the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4: Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 1. On transition to IFRS 16, the Company elected to apply the practical expedient to apply IFRS

16 only to contracts that were previously identified as leases. Contracts that were not previously identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 2 June 2019.

As a lessee

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company.

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under IAS 17

On transition, for operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 2 June 2019.

Right-of-use assets were measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application.

The Company has tested its right-of-use assets for impairment and has concluded that there is and impairment of £3,341,000 is required.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular these were:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT, motor vehicles and warehouse equipment)
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application

The following table summarises the quantitative impact of adopting IFRS 16 on the Company's financial statements for the year ending 30 May 2020.

	Impact of adoption of IFRS 16		Balances without adoption of IFRS 16
	As reported	Adjustments	
	£000	£000	£000
Balance sheet			
Right of use asset	73,287	(73,287)	-
Trade and other receivables	8,130	971	9,101
Trade and other payables	(180,745)	(7,671)	(188,416)
Lease liability (current)	(19,949)	19,949	-
Provisions (current)	(287)	(378)	(665)
Other payables (non-current)	-	(8,136)	(8,136)
Lease liability (non-current)	(77,433)	77,433	-
Provisions (non-current)	(3,158)	(2,346)	(5,504)
Opening Retained Earnings	(144,950)	3,333	(141,617)
Closing Retained Earnings	(173,954)	6,511	(167,443)
Income statement			
Operating profit before interest, tax, depreciation, amortisation, impairment, share-based payments and non-recurring items	17,115	(22,438)	(5,323)
Profit before tax and non-recurring items	7,347	3,178	10,525

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 2 June 2020. The weighted-average rate applied is 7.39%.

The following table summarises the difference between the operating lease commitments disclosed under IAS 17 at 1 June 2019 in the Company's financial statements and the lease liabilities recognised at 2 June 2019

	£000
Operating lease commitments at 1 June 2019 as disclosed under IAS 17	126,246
Discounted using the incremental borrowing rate at 2 June 2019	(12,361)
Break assumptions assumed to be exercised at 2 June 2019	(1,602)
Recognition exemption for leases of low-value assets	(385)
Lease liabilities recognised as at 2 June 2019	111,898

As a lessor

The Company is not required to make any adjustments on transition for leases in which it is a lessor. On transition, the Company has reassessed subleases in existence at 2 June 2019 that were classified as operating leases under IAS 17, to determine whether each sublease should be classified as an operating lease or finance lease under IFRS 16. This assessment was performed at 2 June 2019 the remaining contractual terms and conditions of the head lease and the sublease at that date, with reference to the right-of-use asset rather than the underlying asset. The Company concluded that they were operating leases.