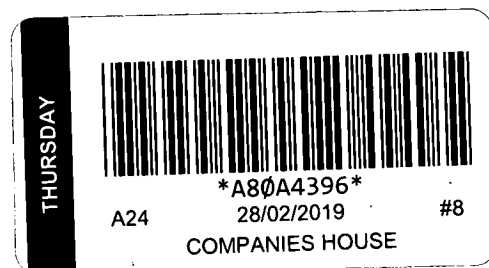


Company Registration No. 04535199 (England and Wales)

CREATIVITY INTERNATIONAL LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2018



CREATIVITY INTERNATIONAL LIMITED

COMPANY INFORMATION

Directors	Mr M Candela	(Appointed 7 June 2018)
	Mr J J Schmitz	
	Ms D Paradis	(Appointed 7 June 2018)
Secretary	R W Ireland	
Company number	04535199	
Registered office	16 Narrowboat Way Hurst Business Park Brierley Hill West Midlands DY5 1UF	
Auditor	Ormerod Rutter Limited The Oakley Kidderminster Road Droitwich Worcestershire WR9 9AY	
Bankers	The Royal Bank of Scotland plc 195 High Street Dudley West Midlands DY1 1QE	

CREATIVITY INTERNATIONAL LIMITED

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CREATIVITY INTERNATIONAL LIMITED

STRATEGIC REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2018

The directors present the strategic report for the period ended 31 December 2018.

Business review

We aim to represent a balanced and comprehensive review of the development and performance of our business during the year and its position at the year end. Our review is consistent with the size and nature of our business and is written in the context of the risks and opportunities that we face.

Principal risks and uncertainties

The principal risks and uncertainties facing the company are changes to the level of demand which principally driven by government policy and spending in the education sector, and the loss of key customers in the sector.

Performance for the year

Creativity International had a change of Year End in 2018 which is now December 31st. In that extended period Creativity Sales grew by like for like by 3% to £9.33m. On-Line business grew by 18%, Education maintained its sales position (despite ongoing funding issues for schools), Export sales were a little soft due mostly to timing, the Photographic Backgrounds division was level too whilst retail was up by a significant 44%. The UK economic environment was challenging in 2018 with many macro effects playing on sentiment and funding squeezes continuing in Education. Product Gross Margin for the year 2018 was slightly lower than it has been in recent years due to two effects, the first and major one being the weak £ vs \$. This effect has been mitigated somewhat by repatriating manufacturing back to the UK as well as resourcing to better value vendors. Another margin effect has been the growth of retail with the development of a range of branded craft kits. Priced competitively, this new range has had an enormous level of interest, and being incremental business has a positive effect on EBITDA.

Our focus on customer services has resulted in some of our highest OTIF scores reported by CIs largest customers. This focus will remain in 2019 where we anticipate even better performance.

Space is at a premium and we have made use of group warehousing facilities in Peterborough and Wareham, and we have a local facility coming on-stream in January.

Key performance indicators

We consider that our key performance indicators are those that communicate the financial performance and strength of the company as a whole, these being turnover, gross margin and operating profit margin.

	Period ended 31 December 2018	Year ended 30 November 2017
Turnover	£9,337,784	£8,566,915
Gross profit margin	50.1%	48.8%
Operating profit margin	16.9%	15.2%

CREATIVITY INTERNATIONAL LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

Future developments

Operations

Focus on our manufacturing operation continues to improve throughput allowing us to off-set price increase in raw materials and £\$ Effects. There are additional product areas that will be manufactured in the UK in 2019 that will improve GM.

Retail

Creativity saw significant sales of the Creativity Crayola license craft items. With Creativity's expertise in Craft and Craft Kits allied to the brand awareness of Crayola there is a unique and exciting opportunity ahead. Thus far the Creativity Crayola lines have only been sold into two retailers but 2019 will see this expand significantly. As volumes grow so costs will fall. Other routes to market include the TV Shopping channels and Discount Web Sites both of which are set to grow strongly.

In addition to the Crayola opportunity as CI is now part of the FILA group, CI have access to the FILA Daler and Giotto brands offering even greater opportunity for growth.

Education

Education will further consolidate its leading position by gaining market share from key competitors. The Education product offering will be further strengthened by offering key Daler lines into the CI portfolio. In addition to this, there is a £400m injection of funds into educational resource spend for 2019. This will improve the funding position for 2019.

With our global manufacturing reach, Creativity will explore offering "Own Brand" items on key categories to key customers.

Direct e-commerce

Amazon continues to grow as do sales through direct web-site channels when the proposition is very clear. Direct web sites offer greater margin and as listings increase so will sales.

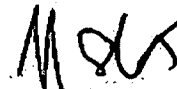
Export / Photographic Backgrounds

Export held up well and there is opportunity for the new craft kit lines in Export. Offering Mount-board and other framing products to the backgrounds channel will add to growth.

Other Activities

Our roadmap for optimizing synergies between the groups will include space usage, cross channel selling, identify best practice and sharing resources. 2019 will build upon a very successful 2018.

On behalf of the board



Mr J J Schmitz

Director

4 February 2019

CREATIVITY INTERNATIONAL LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2018

The directors present their annual report and financial statements for the period ended 31 December 2018.

Principal activities

The principal activity of the company in the period under review was that of the supply of craft and educational display products.

During the period, the accounting reference date was extended from November to December.

Directors

The directors who held office during the period and up to the date of signature of the financial statements were as follows:

Mr M Candela	(Appointed 7 June 2018)
Mr J J Schmitz	
Ms D Paradis	(Appointed 7 June 2018)
Mr R W Ireland	(Resigned 7 June 2018)
Mr T Smith	(Resigned 7 June 2018)

Results and dividends

The results for the period are set out on page 7.

Ordinary dividends were paid amounting to £833,820. The directors do not recommend payment of a final dividend.

Financial instruments

Liquidity risk

The company seeks to arrange liquidity risk by ensuring sufficient liquidity is available to meet foreseeable need to invest cash assets safely and profitably.

Foreign currency risk

The company is exposed in its trading operations to the risk of changes in foreign currency exchange rates. The company's main exposure to foreign exchange rates is through the purchase of goods from US dollar denominated suppliers.

Credit risk

The company's principal financial assets are bank balances, cash and trade debtors which represent the company's maximum exposure to credit risk in relation to financial assets. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one debtor depending upon their history. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the company's management based on prior experience and their assessment of current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Future developments

Information about future developments can be found in the strategic report.

CREATIVITY INTERNATIONAL LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

Auditor

The auditor, Ormerod Rutter Limited, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Matters covered in the strategic report

The strategic report includes a review of the business, details of principal risks and uncertainties and details of financial key performance indicators.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board



Mr J J Schmitz

Director

4 February 2019

CREATIVITY INTERNATIONAL LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CREATIVITY INTERNATIONAL LIMITED

Opinion

We have audited the financial statements of Creativity International Limited (the 'company') for the period ended 31 December 2018 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

CREATIVITY INTERNATIONAL LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CREATIVITY INTERNATIONAL LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

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

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

Responsibilities of directors

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

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

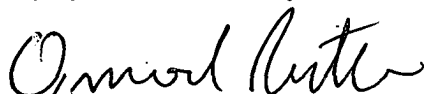
Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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



Colm McGrory FCA (Senior Statutory Auditor)
for and on behalf of Ormerod Rutter Limited

4 February 2019

Chartered Accountants
Statutory Auditor

The Oakley
Kidderminster Road
Droitwich
Worcestershire
WR9 9AY

CREATIVITY INTERNATIONAL LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2018

		Period ended 31 December 2018 £	Year ended 30 November 2017 £
	Notes		
Turnover	3	9,337,784	8,566,915
Cost of sales		(4,661,468)	(4,387,156)
Gross profit		4,676,316	4,179,759
Distribution costs		(1,451,669)	(2,006,643)
Administrative expenses		(1,648,004)	(866,998)
Operating profit	4	1,576,643	1,306,118
Interest receivable and similar income	8	916	101
Interest payable and similar expenses	9	(8,787)	-
Profit before taxation		1,568,772	1,306,219
Tax on profit	10	(290,802)	(188,487)
Profit for the financial period		1,277,970	1,117,732
Other comprehensive Income			
Revaluation of tangible fixed assets		210,692	-
Total comprehensive Income for the period		1,488,662	1,117,732

The Statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

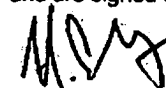
CREATIVITY INTERNATIONAL LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 £	£	2017 £	£
Fixed assets					
Negative goodwill	12		-	(125,370)	
Tangible assets	13		330,360	170,199	
Current assets					
Stocks	15	2,755,871		2,420,470	
Debtors	16	875,118		1,220,313	
Cash at bank and in hand		830,774		778,722	
		4,461,763		4,419,505	
Creditors: amounts falling due within one year	17	(648,593)		(926,779)	
Net current assets			3,813,170	3,492,726	
Total assets less current liabilities			4,143,530	3,537,555	
Provisions for liabilities	19		(2,054)	(2,054)	
Net assets			4,141,476	3,535,501	
Capital and reserves					
Called up share capital	23	598,147		598,147	
Revaluation reserve	24	197,152		-	
Profit and loss reserves		3,346,177		2,937,354	
Total equity			4,141,476	3,535,501	

The financial statements were approved by the board of directors and authorised for issue on 4 February 2019 and are signed on its behalf by:



Mr J J Schmitz
Director

Company Registration No. 04535199

CREATIVITY INTERNATIONAL LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2018

	Notes	Share capital £	Revaluation reserve £	Profit and loss reserves £	Total £
Balance at 1 December 2016		598,147	-	2,905,488	3,503,635
Period ended 30 November 2017:					
Profit and total comprehensive income for the period		-	-	1,117,732	1,117,732
Dividends	11	-	-	(1,085,866)	(1,085,866)
Balance at 30 November 2017		598,147	-	2,937,354	3,535,501
Period ended 31 December 2018:					
Profit for the period		-	-	1,277,970	1,277,970
Other comprehensive income:					
Revaluation of tangible fixed assets		-	210,692	-	210,692
Total comprehensive income for the period		-	210,692	1,277,970	1,488,662
Dividends	11	-	-	(833,820)	(833,820)
Transfers		-	(13,540)	13,540	-
Other movements		-	-	(48,867)	(48,867)
Balance at 31 December 2018		598,147	197,152	3,346,177	4,141,476

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

Company information

Creativity International Limited is a private company limited by shares incorporated in England and Wales. The registered office is 16 Narrowboat Way, Hurst Business Park, Brierley Hill, West Midlands, DY5 1UF.

Due to accounting periods used by the company, the year end does not always fall on the last day of the calendar year. Therefore, the prior accounting period ended 25 November 2017 will be referred to as 2017.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position': Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 26 'Share based Payment': Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of F.I.L.A, Fabbrica Italiana Lapis ed Affini S.p.A. These consolidated financial statements are publicly available.

1.2 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Reporting period

During the period, the accounting reference date has been extended to longer than a year to bring it in line with that of the ultimate parent company. Therefore the comparatives are not entirely comparable.

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.4 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Turnover is measured at the fair value of the consideration received or receivable for goods provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership of the goods to the buyer (usually on dispatch of the goods);
- the company retains neither continuing managerial involvement in the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.5 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

Negative Goodwill

An impairment review was conducted during the period as a result of which negative goodwill was fully amortised.

1.6 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Plant and equipment	8.7% straight line
Fixtures and fittings	8.3% straight line
Office equipment	20% straight line
Motor vehicles	20% straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Fixed assets whose fair value can be measured reliably are held under the revaluation model and are carried at a revalued amount, being their fair value at the date of valuation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluation gains and losses are recognised in other comprehensive income and accumulated in equity, except to the extent that a revaluation gain reverses a revaluation loss previously recognised in profit or loss or a revaluation loss exceeds the accumulated revaluation gains recognised in equity; such gains and losses are recognised in profit or loss.

1.7 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.8 Stocks

Stocks of raw materials and finished goods are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Stocks held for distribution at no or nominal consideration are measured at the lower of replacement cost and cost, adjusted where applicable for any loss of service potential.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.9 Cash at bank and in hand

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

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.10 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.11 Equity Instruments

Equity Instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.12 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.13 Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

1.14 Employee benefits

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

1.15 Retirement benefits

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid, the company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the company in independently administered funds.

1.16 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.17 Foreign exchange

Foreign currency transactions are translated into GB pounds sterling using the spot exchange rates at the dates of the transactions.

At each reporting end date, currency monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Non-monetary items measured at historical costs are translated using the exchange rate when fair value was determined.

Foreign currency gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account for the period, except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'finance income or costs'. All other foreign exchange gains and losses are presented in the profit and loss account within 'other operating income'.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Provision for slow moving and obsolete stock

At each reporting date, management use their knowledge of the market and available sales data to make appropriate provisions against obsolete and slow moving stock.

Provision for doubtful debts

An allowance for doubtful debts is maintained for estimated losses resulting from the inability of the company's customers to make required payments. The allowance is based on the company's regular assessment of the creditworthiness and financial conditions of customers.

3 Turnover and other revenue

	2018	2017
	£	£
Turnover analysed by geographical market		
United Kingdom	8,370,228	7,623,256
Rest of European Union	725,879	693,712
Rest of World	241,677	249,947
	<u>9,337,784</u>	<u>8,566,915</u>

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

4 Operating profit

	2018	2017
	£	£
Operating profit for the period is stated after charging/(crediting):		
Exchange gains	(10,795)	(12,536)
Depreciation of owned tangible fixed assets	50,531	50,530
Amortisation of intangible assets	(125,370)	(24,663)
Cost of stocks recognised as an expense	4,380,749	2,782,436
Operating lease charges	534,448	350,566
	<u>534,448</u>	<u>350,566</u>

5 Auditor's remuneration

	2018	2017
	£	£
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	18,750	27,000
For other services		
All other non-audit services	2,950	4,875
	<u>2,950</u>	<u>4,875</u>

6 Employees

The average monthly number of persons (including directors) employed by the company during the period was:

	2018	2017
	Number	Number
Administrative staff	46	44
Management Staff	3	3
	<u>49</u>	<u>47</u>

Their aggregate remuneration comprised:

	2018	2017
	£	£
Wages and salaries	1,445,207	1,282,141
Social security costs	138,305	125,100
Pension costs	63,709	35,411
	<u>1,647,221</u>	<u>1,442,652</u>

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

7 Directors' remuneration

	2018 £	2017 £
Remuneration for qualifying services	72,750	162,068

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2017 - 1).

Key management personnel are considered to be the directors of the company.

8 Interest receivable and similar income

	2018 £	2017 £
Interest income		
Interest on bank deposits	916	101

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	916	101
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9 Interest payable and similar expenses

	2018 £	2017 £
Interest on financial liabilities measured at amortised cost:		
Other interest	8,787	-

10 Taxation

	2018 £	2017 £
Current tax		
UK corporation tax on profits for the current period	281,623	185,474
Adjustments in respect of prior periods	9,179	(1,281)
Total current tax	290,802	184,193
Deferred tax		
Origination and reversal of timing differences	-	4,294
Total tax charge	290,802	188,487

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

The actual charge for the period can be reconciled to the expected charge for the period based on the profit or loss and the standard rate of tax as follows:

	2018 £	2017 £
Profit before taxation	1,568,772	1,306,219
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.33%)	298,067	252,512
Tax effect of expenses that are not deductible in determining taxable profit	445	90
Adjustments in respect of prior years	9,179	(1,281)
Group relief	-	(62,885)
Amortisation on assets not qualifying for tax allowances	(23,820)	-
Other permanent differences	-	640
Deferred tax adjustments in respect of prior years	-	(589)
Other timing differences	(1,471)	-
Depreciation charge in excess of capital allowances	8,402	-
Taxation charge for the period	290,802	188,487

Factor that may affect future tax charges

The main rate of corporation tax will reduce to 18% from 1 April 2020 (a change which has been substantially enacted as of 21 July 2015 as part of the Finance Bill 2015). Deferred tax has been measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and law that have been enacted or substantially enacted by the balance sheet.

11 Dividends

	2018 £	2017 £
Interim paid	833,820	1,085,866

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 DECEMBER 2018

12 Intangible fixed assets

	Negative goodwill £
Cost	
At 1 December 2017 and 31 December 2018	(493,260)
Amortisation and impairment	
At 1 December 2017	(367,890)
Amortisation charged for the period	(125,370)
At 31 December 2018	(493,260)
Carrying amount	
At 31 December 2018	-
At 30 November 2017	(125,370)

13 Tangible fixed assets

	Plant and equipment £	Fixtures and fittings £	Office equipment £	Motor vehicles £	Total £
Cost or valuation					
At 1 December 2017	634,548	31,272	-	6,336	672,156
Revaluation	(283,802)	(30,899)	970	(5,440)	(319,171)
At 31 December 2018	350,746	373	970	896	352,985
Depreciation and impairment					
At 1 December 2017	464,349	31,272	-	6,336	501,957
Depreciation charged in the period	50,300	25	107	99	50,531
Revaluation	(492,255)	(31,272)	-	(6,336)	(529,863)
At 31 December 2018	22,394	25	107	99	22,625
Carrying amount					
At 31 December 2018	328,352	348	863	797	330,360
At 30 November 2017	170,199	-	-	-	170,199

Tangible fixed assets with a carrying amount of £170,199 were revalued at 7 June 2018 by Marshall Stevens, independent valuers not connected with the company on the basis of Level 2 valuation techniques. This valuation technique examines observable inputs for identical assets in less active markets or similar assets in active markets.

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

13 Tangible fixed assets

(Continued)

If revalued assets were stated on an historical cost basis rather than a fair value basis, the total amounts included would have been as follows:

	2018 £	2017 £
Cost	672,156	672,156
Accumulated depreciation	(560,243)	(501,957)
Carrying value	<u>111,913</u>	<u>170,199</u>

14 Financial instruments

	2018 £	2017 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	<u>807,771</u>	<u>1,114,135</u>
Carrying amount of financial liabilities		
Measured at amortised cost	<u>505,331</u>	<u>813,491</u>

Financial assets measured at amortised cost comprise trade debtors.

Financial liabilities measured at amortised costs comprise trade creditors, amounts owed to group undertakings, other creditors and accruals.

15 Stocks

	2018 £	2017 £
Raw materials and consumables	206,875	184,419
Finished goods and goods for resale	<u>2,548,996</u>	<u>2,236,051</u>
	<u>2,755,871</u>	<u>2,420,470</u>

An impairment loss of £47,104 (2017: £nil) was recognised in cost of sales against stock during the period due to slow moving and obsolete stock.

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

16 Debtors

	2018	2017
	£	£
Amounts falling due within one year:		
Trade debtors	783,521	1,113,645
Corporation tax recoverable	-	3,948
Amounts owed by group undertakings	-	490
Other debtors	24,250	-
Prepayments and accrued income	67,347	102,230
	<u>875,118</u>	<u>1,220,313</u>

An impairment loss of £12,599 (2017: £579) was recognised against trade debtors.

17 Creditors: amounts falling due within one year

	Notes	2018	2017
		£	£
Bank loans and overdrafts	18	-	309
Trade creditors		193,926	295,774
Amounts owed to group undertakings		279,174	339,874
Corporation tax		91,481	-
Other taxation and social security		51,781	113,288
Other creditors		4,326	3,922
Accruals and deferred income		27,905	173,612
		<u>648,593</u>	<u>926,779</u>

18 Loans and overdrafts

	2018	2017
	£	£
Bank overdrafts	-	309
Payable within one year	-	309

19 Provisions for liabilities

	Notes	2018	2017
		£	£
Deferred tax liabilities	20	2,054	2,054

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

20 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

	Liabilities 2018 £	Liabilities 2017 £
Balances:		
Accelerated capital allowances	2,054	2,054

There were no deferred tax movements in the period.

The deferred tax liability set out above is expected to reverse within 12 months and relates to accelerated capital allowances that are expected to mature within the same period.

21 Registration of a charge

The company has a fixed charge in place with Royal Bank of Scotland PLC which was created on 8 October 2014. The charge is in respect of a deposit for £150,000 and all amounts credited in future to the bank account with Royal Bank of Scotland PLC. The company will pay the bank on demand all of the obligations to the bank being, any liabilities, interest at a rate charged by the bank and any expenses the bank incurs in connection with the deposit or in taking, perfecting, protecting, enforcing or exercising any power under this deed.

22 Retirement benefit schemes

	2018 £	2017 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	63,709	39,628

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

23 Share capital

	2018 £	2017 £
Ordinary share capital		
Issued and fully paid		
598,147 Ordinary of £1 each	598,147	598,147
	598,147	598,147

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

24 Reserves

Revaluation reserve

The revaluation reserve records the excess value of fixed assets from the revaluation over and above the historical cost valuation.

Profit and loss account

The profit and loss account includes all current and prior period retained profits, including dividends paid.

25 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £	2017 £
Within one year	142,401	333,438
Between two and five years	4,216	174,103
	<u>146,617</u>	<u>507,541</u>

26 Related party transactions

Transactions with related parties

During the period the company entered into the following transactions with related parties:

Description of transaction	Income		Payments	
	2018 £	2017 £	2018 £	2017 £
Entities with control, joint control or significant influence over the company	-	-	1,352,615	1,301,675
Other related parties	-	-	338,000	312,000

Amounts owed to/by related parties

The following amounts were outstanding at the reporting end date:

	Amount owed to		Amounts owed by	
	2018 £	2017 £	2018 £	2017 £
Entities with control, joint control or significant influence over the company	279,174	335,952	-	-
Other related parties	4,326	3,922	-	-

During the period, the company paid rent of £338,000 (2017: £312,000) at arms' length to Blue Sky Commercial Limited, a company in which R W Ireland is a director and shareholder.

CREATIVITY INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

27 Controlling party

The company's immediate parent undertaking is Castlehill Crafts Limited, a company incorporated in England and Wales. Castlehill Crafts Limited is a wholly owned subsidiary Pacon Corporation, which is incorporated in the United States.

The company's ultimate parent company and ultimate controlling party is F.I.L.A. Fabbrica Italiana Lapis ed Affini S.p.A. The largest group of which the company is a member, and for which consolidated financial statements are drawn up is that head by F.I.L.A. Fabbrica Italiana Lapis ed Affini S.p.A.