

AURORA

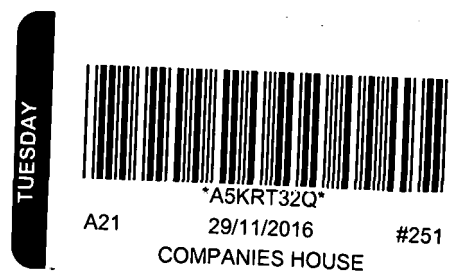
FASHIONS

Aurora Fashions Finance Limited

Directors' Report and Financial Statements

For the period 1 March 2015 to 27 February 2016

Company registered number: 6787528 (England and Wales)



Aurora Fashions Finance Limited

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Aurora Fashions Finance Limited

Company information

| | |
|--------------------------|---|
| Directors | Matthew Turner Johann Petur Reyndal |
| Secretary | Heatons Secretaries Limited |
| Company number | 6787528 |
| Registered office | The Triangle Stanton Harcourt Industrial Estate Stanton Harcourt Witney Oxfordshire OX29 5UT |
| Auditor | KPMG LLP Arlington Business Park Theale, Reading, RG7 4SD |
| Bankers | Barclays Bank plc 1 Churchill Place London E14 5HP |
| Loan Providers | Kaupthing Bank hf. Borgartun 26 105 Reykjavik Iceland |
| Solicitors | Field Fisher Waterhouse LLP 5th Floor, Free Trade Exchange 37 Peter Street Manchester M2 5GB White & Case LLP 5 Old Broad Street London EC2N 1DW |

Aurora Fashions Finance Limited

Strategic Report

For the period 1 March 2015 to 27 February 2016

Strategy and Objectives

The principal activities of the Company are operating as an intermediate holding company for the Aurora Fashions Group Limited group of companies ("Group" or "the Aurora Group") and as the primary source of external funding for the Aurora Group.

Business Model

The Group's objective is to grow sales profitability and to optimise returns for its shareholders. This objective will be delivered by driving brand performance and leveraging existing assets while continuing to exploit the significant opportunity offered by development of new stores, concessions and e-commerce channels internationally.

Aurora Fashions Group Limited is the holding company for the Aurora group of companies (the "Aurora Group"). Following a Group reconstruction and amendment to the senior facilities agreement effected 2 October 2015, Kaupthing Bank hf's holding of shares in Aurora Fashions Group Limited comprises 100% of all share capital by nominal value and 100% of the voting rights across all share capital. At 2 October 2015 in a share for share exchange Kaupthing Bank hf transferred its shares in Karen Millen Group Limited to Aurora Fashions Group Limited who in turn transferred the shares to Aurora Fashions Holdings Limited and in turn to Aurora Fashions Finance Limited. Details of the Group reconstruction and amendment agreement are contained in note 1.4 Basis of preparation.

KPI's

The company, in its capacity as an intermediate holding company within the Aurora Group, holds the senior loans and revolving credit facility with Kaupthing Bank. See note 14 for further details. Given the nature of this business, the directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the business.

Future developments

In March 2013 the Aurora Group announced the next phase of a fundamental reshaping of its business. Further to this announcement the Group continues to brand align its remaining shared service functions and respective employees (both during 2014/15 and 2015/16) which currently operate within Aurora Fashions Services Limited an entity owned 50% by the OWL Group, 25% by the Coast Group and 25% by the Karen Millen Group.

The internal restructure as outlined will further enable the main Aurora Group trading brands; Oasis, Warehouse, Coast and Karen Millen, to operate independently and focus on the continued development of the brands and omni channel presence in both the UK and overseas.

Principal Risks and Uncertainties

Financial Risk

The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk. Due to the nature of the Company's activities and the assets and liabilities contained within the Company's balance sheet, the main financial risk that the Company is exposed to is credit risk.

Supply chain

The Group, and therefore the Company in its capacity as a holding company for the Group, is dependent on the ability of its suppliers to manufacture its products to the desired quality and standards and on its logistics providers to ensure it reaches the required location on a timely basis. The standards, arrangements and contingency plans are under constant review by management.

Aurora Fashions Finance Limited Strategic Report (continued)

For the period 1 March 2015 to 27 February 2016

Principal Risks and Uncertainties (continued)

Liquidity risk

With effect from 2nd October 2015, 3 new standalone senior facilities agreements ("SFA's") were executed. The new SFA's have been provided by Aurora Fashions Finance Limited in its capacity as lender, agent and security agent for Kaupthing Bank hf. The SFA's are in favour of the Oasis and Warehouse Group, the Coast Group and Karen Millen Group of companies. The new facilities are subject to financial covenant targets that adjust through to maturity of the loans. Performance against the covenants is measured quarterly. Further details are contained in note 1.4 'Going concern' and note 16 'Guarantees and commitments'.

Going Concern

Note 1.4 to the financial statements sets out the basis of preparation of the financial statements. As explained in note 1.4, the directors consider that it continues to be appropriate to prepare the financial statements on the basis that the group is a going concern.

Interest rate risk

The Group's policy is to minimise the impact of interest rate volatility on interest cost to protect earnings. This is achieved by reviewing both the amount of floating indebtedness over a certain period of time and its sensitivity to interest rate fluctuations. From time to time, the Group may hedge its interest rate exposure in order to fix the Group's exposure to interest rates on floating debt.

Currency risk

The Group is exposed to foreign currency risks on sales and purchases. Exposures are primarily to the US Dollar and the Euro.

Forecast transactional exposures are reviewed and hedged based on forecasted levels of foreign currency transactions. Hedging is achieved using forward exchange contracts and other suitable derivative products.

By Order of the Board



Matthew Turner
Director

21 July 2016

Aurora Fashions Finance Limited

Directors' Report

For the period 1 March 2015 to 27 February 2016

The directors present their report and the audited financial statements of Aurora Fashions Finance Limited ("the Company") for the period 1 March 2015 to 27 February 2016.

The Company is a member of the Aurora Fashions Group Limited (together with its subsidiaries "the Aurora Group").

The current period relates to the 52 week period from 1 March 2015 to 27 February 2016. The prior period covers the 51 week and 5 day period from 4 March 2014 to 28 February 2015.

Results and dividends

The Company's results are set out on page 8.

The directors do not recommend the payment of a dividend (2015: £nil).

Political contributions

The Company made no political contributions during the period (2015: £nil).

Directors

The current Directors of the Company are listed on page 2.

There have been no changes in Directors since the start of the period.

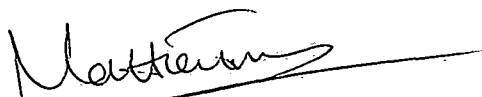
Disclosure of information to auditor

The directors who held office at the date of approval of this report of the board 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.

By Order of the Board



Matthew Turner
Director

21 July 2016

Aurora Fashions Finance Limited

Statement of Directors' Responsibilities in respect of the Strategic report, Directors' report and financial statements

For the period 1 March 2015 to 27 February 2016

The directors are responsible for preparing the Strategic Report, 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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They 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.



Independent auditor's report to the members of Aurora Fashions Finance Limited

We have audited the financial statements of Aurora Fashions Finance Limited for the period ended 27 February 2016, set out on pages 8 to 21. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibility Statement set out on page 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standard for Auditors.

Scope of the audit of financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements :

- give a true and fair view of the state of the Company's affairs as at 27 February 2016 and of its loss for the period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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.

Jonathan Russell (Senior Statutory Auditor)
for and on behalf of KPMG LLP

Chartered Accountants
Arlington Business Park, Theale,
Reading, RG7 4SD

26 July 2016

Aurora Fashions Finance Limited**Profit and loss account and other comprehensive income****For the period 1 March 2015 to 27 February 2016**

| | | 1 March 2015 to 27 February 2016 | 4 March 2014 to 28 February 2015 |
|---|------|-------------------------------------|-------------------------------------|
| | Note | Total £m | Total £m |
| Administrative expenses | | <u>-70.8</u> | <u>1.0</u> |
| Operating (loss)/profit | | -70.8 | 1.0 |
| Income from share in group undertakings | 14 | 10.6 | - |
| Interest receivable and similar income | 6 | 1.6 | - |
| Interest payable and similar charges | 7 | <u>-6.5</u> | <u>-3.1</u> |
| Loss on ordinary activities before taxation | | -65.1 | -2.1 |
| Tax on loss on ordinary activities | 8 | <u>-</u> | <u>-</u> |
| Loss for the financial year | | <u>-65.1</u> | <u>-2.1</u> |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year | | <u>-65.1</u> | <u>-2.1</u> |

The notes on pages 11 to 21 also form part of these financial statements.

Aurora Fashions Finance Limited

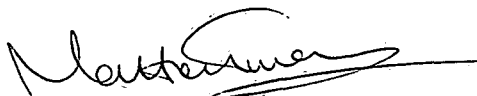
Balance sheet

As at 27 February 2016

| | Note | 27 February 2016 £m | 28 February 2015 £m |
|---|------|------------------------|------------------------|
| Fixed assets | | | |
| Negative goodwill | 9 | -13.1 | -14.1 |
| Investments | 10 | <u>183.9</u> | <u>100.8</u> |
| | | <u>170.8</u> | <u>86.7</u> |
| Current assets | | | |
| Debtors (including £71.5m (2015: £0m) due after more than one year) | 11 | 80.1 | 72.0 |
| Creditors : amounts falling due within one year | 12 | <u>-118.5</u> | <u>-36.2</u> |
| Net current (liabilities)/assets | | <u>-38.4</u> | <u>35.8</u> |
| Total assets less current liabilities | | 132.4 | 122.5 |
| Creditors : amounts falling due after more than one year | 13 | <u>-117.4</u> | <u>-42.4</u> |
| Net assets | | <u>15.0</u> | <u>80.1</u> |
| Capital and reserves | | | |
| Called up share capital | 15 | 5.1 | 5.1 |
| Profit and loss account | | <u>9.9</u> | <u>75.0</u> |
| Shareholder's funds | | <u>15.0</u> | <u>80.1</u> |

The notes on pages 11 to 21 also form part of these financial statements.

These financial statements were approved by the board of directors on 21 July 2016 and signed on its behalf by:



Matthew Turner
Director

Company registered number: 6787528 (England and Wales)

Aurora Fashions Finance Limited
Statement of changes in equity

For the period 1 March 2015 to 27 February 2016

| | Note | Called up share capital £m | Profit and loss account £m | Total equity £m |
|-----------------------------|------|----------------------------------|----------------------------------|-----------------------|
| Balance at 4 March 2014 | | 5.1 | 77.1 | 82.2 |
| Loss for the period | | - | -2.1 | -2.1 |
| Balance at 28 February 2015 | | 5.1 | 75.0 | 80.1 |
| Balance at 1 March 2015 | | 5.1 | 75.0 | 80.1 |
| Loss for the period | | - | -65.1 | -65.1 |
| Balance at 27 February 2016 | | 5.1 | 9.9 | 15.0 |

The notes on pages 11 to 21 also form part of these financial statements.

Aurora Fashions Finance Limited

Notes forming part of the financial statements

For the period 1 March 2015 to 27 February 2016

1. Accounting policies

Aurora Fashions Finance Limited (the "Company") (Co No 6787528) is a company limited by shares and incorporated and domiciled in the UK, and is part of the Aurora group of companies (the "Aurora Group").

1.1 Basis of Preparation - Accounting Convention

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including FRS 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The presentational currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £0.1m unless otherwise stated.

An explanation of how the transition to FRS 102 from old UK GAAP has affected the financial position and financial performance of the company is provided in note 20.

FRS 102 grants certain first-time adoption exemptions for the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Business combinations - business combinations that took place prior to transition date have not been restated.

1.2 Compliance with accounting standards

The Company is 100% owned by Aurora Fashions Holdings Limited and is included in the consolidated financial statements of Aurora Fashions Group Limited (7410878) which are available to the public. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Aurora Fashions Group Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The company was, at the end of the year, a subsidiary of another company incorporated in the EEA and in accordance with Section 400 of the Companies Act 2006, is not required to produce, and has not published, consolidated accounts.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Group and Company has not retrospectively changed its accounting under old UK GAAP for derecognition of financial assets and liabilities before the date of transition, or accounting estimates.

Judgements 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 in the next year are discussed in note 1.12.

1.3 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at fair value: financial instruments classified at fair value through the profit and loss.

Aurora Fashions Finance Limited

Notes forming part of the financial statements (continued)

For the period 1 March 2015 to 27 February 2016

1. Accounting policies (continued)

1.4 Basis of preparation - going concern

Aurora Fashions Group Limited is the holding company for the Aurora group of companies (the "Aurora Group"). Following a Group reconstruction and amendment to the Senior facilities agreement effected 2 October 2015 Kaupthing Bank hf's holding of shares in Aurora Fashions Group Limited comprises 100% of all share capital by nominal value and 100% of the voting rights across all share capital. At 2 October 2015 in a share for share exchange Kaupthing Bank hf transferred its shares in Karen Millen Group Limited to Aurora Fashions Group Limited who in turn transferred the shares to Aurora Fashions Holdings Limited and in turn to Aurora Fashions Finance Limited.

The Company made a loss for the year of -£65.1 million (2015: -£2.1 million) and had net current liabilities of -£38.4 million (2015: current assets £35.8 million) and net assets of £15.0 million (2015: £80.1 million).

Notwithstanding this, the directors have prepared the financial statements on a going concern basis for the reasons set out below:

Following the Group reconstruction and amendment agreement effected 2 October 2015, the Aurora Group 'banking subgroups' have secured facilities, which are now repayable in part in October 2019, with the balance on the termination date October 2020. The facilities are subject to certain financial and other covenant requirements. The treasury management function is now undertaken on an individual subsidiary/banking group level. Various companies in the 'banking subgroups' only have granted fixed and floating charges over its sister Group's assets and undertakings, under a debenture granted to secure the banking facilities.

The historic facilities between Karen Millen Group Limited and Kaupthing Bank hf have been novated to Aurora Fashions Finance Limited, and so Aurora Fashions Finance Limited is now the only direct borrower from Kaupthing Bank hf under this facility. The agreement between Aurora Fashions Finance Limited and Kaupthing Bank hf shall continue in effect following an amendment letter executed in July 2016 which gives agreement to extend the termination date to 30th June 2018 in respect of each facility. In turn, the standstill period referred to in the main SFA is also extended and shall end on 30th June 2018. The result is the existing lender having agreed to forebear any potential breach, misrepresentation or default in respect of the existing facility commencing on the restructuring date 2 October 2015 to the cessation date of 30th June 2018.

The directors have prepared projected cash flows for the period ending approximately 15 months from the approval of these financial statements (the "Projections"). The Projections are based on certain assumptions and show that the Aurora Group is capable of operating within the facilities currently available and complying with the covenant requirements for the full term covered by the Projections.

The directors of Aurora Fashions Group Limited have tested the impact of variations from the Projections by assessing the adequacy of the Aurora Group's funds, under a combination of different scenarios constructed to reflect reasonably possible downside risks to the assumptions contained within the Projections. The directors recognise that in the current economic environment, the main risks relate to the achievability of the Aurora Group's forecast sales and margins and the timing of cash flows going forward. In such downside scenarios, the ability to continue to operate would be dependent on maintaining compliance with the financial covenants by implementing various cost saving initiatives within the timescales required. The directors consider that, in all reasonable downside scenarios, there are cost saving measures available to the Aurora Group to implement which would avoid breaching the terms of any financial covenant.

The going concern assessment performed by the directors of the Aurora Group therefore also depends on the going concern assessment performed by the directors of the respective sub groups, Oasis and Warehouse, Coast and Karen Millen. Accordingly, the directors have satisfied themselves with the going concern assessment performed by the directors of the respective sub groups. The directors, having made reasonable enquiries, consider that the Aurora Fashions Group has sufficient facilities in order to meet its projected obligations as they fall due.

Given the facts and circumstances described above and after making enquiries, the directors have a reasonable expectation that the Company and the Aurora Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Aurora Fashions Finance Limited

Notes forming part of the financial statements (continued)

For the period 1 March 2015 to 27 February 2016

1. Accounting policies (continued)

1.5 Foreign currencies

The Company's functional and presentational currency is pound sterling. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction where no forward cover exists or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

1.6 Financial Instruments

In accordance with FRS 102.22, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

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

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity'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.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. Transaction costs are allocated between the debt component and the equity component on the basis of their relative fair values.

1.7 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.8 Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- Investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment

1.9 Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the entity.

FRS 102.35 grants certain exemptions from the full requirements of FRS 102 in the transition period. The Group elected not to restate business combinations that took place prior to 4 March 2014. In respect of acquisitions prior to 4 March 2014, goodwill is included on the basis of its deemed cost, which represents the amount recorded under old UK GAAP.

Aurora Fashions Finance Limited

Notes forming part of the financial statements (continued)

For the period 1 March 2015 to 27 February 2016

1. Accounting policies (continued)

1.10 Intangible fixed assets, goodwill and amortisation

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds fair value of such net assets.

At the date of transition to FRS 102, the Groups goodwill had a remaining useful economic life of 15 years. There have been no events which affect this estimate at the date of transition to FRS 102, and as such the Directors consider it appropriate to continue to amortise the goodwill over this period on a straight-line basis as it reflects management's best estimate of its useful economic life. Goodwill has no residual value. In support of the continuing useful economic life, factors considered are the nature of the business, product lifecycle and overall industry sector performance and projections. Net present value of future cash inflows are measured at respective entity level, key assumptions are based on historical trends and future market expectations.

The Group performs an annual impairment review of the Goodwill, and if it considers that the carrying amount exceeds the recoverable amount then the difference will be recognised as an impairment loss through the profit and loss account.

For purchased goodwill arising on acquisitions after the date of transition to FRS 102, goodwill will be capitalised and amortised through the profit and loss account over a period of 10 years unless the directors consider it has a materially different useful life.

Negative goodwill arising on business combinations in respect of acquisitions is included on the balance sheet immediately below any positive goodwill and released to the profit and loss account in the periods in which the non-monetary assets arising on the same acquisition are recovered. Any excess exceeding the fair value of non-monetary assets acquired shall be recognised in profit or loss in the periods expected to benefit.

1.11 Impairments

The carrying amounts of the Company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment is recognised when the carrying amount of an investment, fixed asset or goodwill exceeds the recoverable amount. The recoverable amount of the asset is the higher of net realisable value or value in use. To the extent that the carrying amount exceeds the recoverable amount, the difference will be recognised as an impairment loss through the profit and loss account.

In respect of Tangible Fixed Assets held at retail locations, management use the concept of payback period, defined as net book value divided by EBITDA, to help identify any indicators of impairment. Where such an indicator exists, an assessment of the retail location's prospects is performed based on budgeted data and facts and circumstances specific to that location. Retail locations where management do not expect a sufficient improvement in performance, or where there exists a plan to close the store, the assets assigned to that store are impaired in full as management deem that the recoverable amount is zero.

Where an indicator of impairment exists in respect of Goodwill or Investments, the value in use is assessed by discounting the expected future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. Management assess that future cash flows approximate to the EBITDA generated by the assets that gave rise to the goodwill, or to the EBITDA generated by the subsidiary undertakings in the case of Investments.

Aurora Fashions Finance Limited
Notes forming part of the financial statements (continued)

For the period 1 March 2015 to 27 February 2016

1. Accounting policies (continued)

1.12 Accounting estimates and judgements

The Company estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The accounting estimates believed to require the most difficult, subjective or complex judgements and which are the most critical to the reporting of results and financial positions are as follows:

- carrying value of assets relating to goodwill
- carrying value of deferred tax asset

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated. The recoverable amount of goodwill has been determined based on the fair value of net assets acquired and net present value of future cash inflows, the calculation of which requires the use of estimates.

Management reviews annually the recognition of any deferred tax asset to the extent that they are regarded as recoverable, on the basis of all available evidence it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

1.13 Provisions

A provision is recognised where the group has a legal or constructive obligation as a result of a past event and it is probable that the outflow of economic benefits will be required to settle the obligation.

1.14 Expenses

Interest receivable and interest payable

Interest payable and similar charges include interest payable, finance charges and net foreign exchange losses that are recognised in the profit and loss account.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains. Interest income and interest payable are recognised in profit and loss as they accrue, using the effective interest method.

1.15 Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or tax.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Aurora Fashions Finance Limited
Notes forming part of the financial statements (continued)

For the period 1 March 2015 to 27 February 2016

2. Operating (loss)/profit

Operating (loss)/profit is stated after charging / (crediting):

| | 1 March 2015 to 27 February 2016 £m | 4 March 2014 to 28 February 2015 £m |
|-----------------------------------|---|---|
| Amortisation of negative goodwill | -1.0 | -1.0 |
| Impairment of investments | <u>71.8</u> | <u>-</u> |

3. Expenses & Auditor's Remuneration

Included in the loss of the Company are the following:

Auditor's remuneration

In the current and previous periods, the remuneration payable in relation to audit services for the Company of £4,899 (2015: £4,615) was borne by Oasis and Warehouse Limited, and included in the fees of the financial statements of Oasis Fashions Limited, Warehouse Fashions Limited, and Coast Fashions Limited, which are fellow Group subsidiaries.

4. Staff numbers and costs

Apart from the directors, the Company had no employees during the period (2015: nil).

In the current and previous periods, staff providing shared administrative services to the Aurora Group as a whole were remunerated by Oasis and Warehouse Limited and Aurora Fashions Services Limited. As they receive no emoluments from the Company, their emoluments are dealt with in the financial statements of the above named companies.

5. Remuneration of directors

In the current and previous periods, the directors were remunerated by Oasis and Warehouse Limited in respect of their services to a number of Companies within the Aurora Group. It is not possible to allocate a fair apportionment of these costs as services are provided to multiple entities. As the directors receive no emoluments from the Company their emoluments are dealt with in the financial statements of the above named companies.

6. Interest receivable and similar income

| | 1 March 2015 to 27 February 2016 £m | 4 March 2014 to 28 February 2015 £m |
|--|---|---|
| Interest receivable on loans with Group undertakings | <u>1.6</u> | <u>-</u> |

7. Interest payable and similar charges

| | 1 March 2015 to 27 February 2016 £m | 4 March 2014 to 28 February 2015 £m |
|---|---|---|
| Interest payable on bank loans and overdrafts | 5.6 | 3.1 |
| Unwinding of discount on subordinated debt | <u>0.9</u> | <u>-</u> |
| | <u>6.5</u> | <u>3.1</u> |

Aurora Fashions Finance Limited

Notes forming part of the financial statements (continued)

For the period 1 March 2015 to 27 February 2016

8. Taxation

The company suffered no current or deferred tax in the current period or prior period.

Reconciliation of effective tax rate:

| | 1 March 2015 to 27 February 2016 £m | 4 March 2014 to 28 February 2015 £m |
|--|---|---|
| Loss before tax | -65.1 | -2.1 |
| Total tax expense | - | - |
| Loss after tax | -65.1 | -2.1 |
| Tax using the UK corporation tax rate of 20.08% (2015: 21.17%) | -13.1 | -0.4 |
| Expenses not deductible for tax | 14.6 | - |
| Income not taxable | -2.1 | - |
| Transfer pricing adjustments | - | 0.5 |
| Group relief surrendered | 0.8 | 0.2 |
| Deferred tax not recognised | -0.2 | -0.3 |
| Current tax charge for the period | - | - |

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax asset at 27 February 2016 has been calculated based on these rates. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current and deferred tax charges accordingly.

There is an unrecognised deferred tax asset of £0.3 million (2015: £0.6 million) in respect of short term timing differences which has not been recognised for the Company due to uncertainty over its recoverability. This will be reassessed at each period end.

9. Intangible fixed assets

| | Negative goodwill £m |
|---|----------------------------|
| Cost | |
| At 1 March 2015 and at 27 February 2016 | -20.1 |
| Amortisation | |
| At 1 March 2015 | 6.0 |
| Credit for the period | 1.0 |
| At 27 February 2016 | 7.0 |
| Net book value | |
| At 27 February 2016 | -13.1 |
| At 1 March 2015 | -14.1 |

The negative goodwill arose as part of the acquisition by the Company of various trades and assets of the UK subsidiaries of Mosaic Fashion hf on 2 March 2009 as the fair value of non-monetary assets acquired was in excess of the consideration paid. It is being written off over 20 years. See note 1.10 for an explanation of this policy.

Amortisation

The amortisation is recognised in administrative expenses in the profit and loss account.

Aurora Fashions Finance Limited

Notes forming part of the financial statements (continued)

For the period 1 March 2015 to 27 February 2016

10. Investments

| | Subsidiary undertakings £m |
|---------------------|-------------------------------|
| Cost | |
| At 1 March 2015 | 100.8 |
| Additions | 154.9 |
| At 27 February 2016 | 255.7 |
| Provisions | |
| At 1 March 2015 | - |
| Impairment losses | -71.8 |
| At 27 February 2016 | -71.8 |
| Net Book Value | |
| At 27 February 2016 | 183.9 |
| At 1 March 2015 | 100.8 |

On 2 October 2015, as part of the group reorganisation/restructure a reassignment of intercompany debt was effected in a number of the UK entities within the Aurora group by way of formal capitalisation through the issue of ordinary shares, the value of which is reflected in the increase in investments as shown above.

Management undertake an annual review of the value of their investments and it was agreed that the value of the investments in And Other Brands Limited and Aurora Speciality Brands Limited would be fully impaired in the current period. In addition, management agreed that the value of the investment in Karen Millen Holdco 1 Limited would be partially impaired to a value of £45.0 million in the current period. The impairment charge is included in administrative expenses.

The Company's undertakings at the end of the period are as follows:

| Subsidiary undertakings | Country of Incorporation | Principal activity | Class and percentage of shares held |
|---|--------------------------|--------------------|-------------------------------------|
| <i>Directly owned:</i> | | | |
| Coast Holdco 1 Limited | UK | Holding | Ordinary - 100% |
| Oasis and Warehouse Holdco 1 Limited | UK | Holding | Ordinary - 100% |
| Karen Millen Holdco 1 Limited | UK | Holding | Ordinary - 100% |
| And Other Brands Limited | UK | Holding | Ordinary - 100% |
| Aurora Speciality Brands Limited | UK | Dormant | Ordinary - 100% |
| <i>Owned via subsidiary undertakings:</i> | | | |
| Coast Holdco 2 Limited | UK | Holding | Ordinary - 100% |
| Coast Debtco Limited | UK | Holding | Ordinary - 100% |
| Coast Holdings Limited | UK | Holding | Ordinary - 100% |
| Coast Fashions Spain SL | Spain | Retail | Ordinary - 100% |
| Coast Stores Ireland Limited | Ireland | Retail | Ordinary - 100% |
| Coast Retail Limited | UK | Property | Ordinary - 100% |
| Coast Fashions Limited | UK | Retail | Ordinary - 100% |
| Coast Fashions US Limited | UK | Retail | Ordinary - 100% |
| Coast Australia Pty Limited | Australia | Retail | Ordinary - 100% |
| Coast Fashions New Zealand Limited | New Zealand | Retail | Ordinary - 100% |
| Oasis and Warehouse Holdco 2 Limited | UK | Holding | Ordinary - 100% |
| Oasis and Warehouse Limited | UK | Holding | Ordinary - 100% |
| A Fashions Sweden AB | Sweden | Retail | Ordinary - 100% |
| Bastyen Fashions Limited | UK | Retail | Ordinary - 100% |
| Aurora Fashions Asia Limited | Hong Kong | Service | Ordinary - 100% |
| Aurora Fashions Services Limited | UK | Service | Ordinary - 100% |
| Warehouse Fashions Holdings Limited | UK | Holding | Ordinary - 100% |
| Warehouse Fashions Limited | UK | Retail | Ordinary - 100% |
| Warehouse Fashion Ireland Limited | Ireland | Retail | Ordinary - 100% |
| Warehouse Retail Limited | UK | Property | Ordinary - 100% |
| Warehouse Fashions US Limited | UK | Dormant | Ordinary - 100% |
| Oasis Fashions Holdings Limited | UK | Holding | Ordinary - 100% |
| Oasis Fashions Limited | UK | Retail | Ordinary - 100% |
| Oasis Fashions Ireland Limited | Ireland | Retail | Ordinary - 100% |
| Oasis Fashions Retail Limited | UK | Property | Ordinary - 100% |
| Oasis Fashions US Limited | UK | Dormant | Ordinary - 100% |
| Karen Millen Group Limited | UK | Holding | Ordinary - 100% |
| Karen Millen Holdings Limited | UK | Holding | Ordinary - 100% |
| HS 524 Limited | UK | Holding | Ordinary - 100% |
| Karen Millen Ireland Limited | Ireland | Retail | Ordinary - 100% |
| Karen Millen Sweden AB | Sweden | Retail | Ordinary - 100% |
| Mosaic Fashions US Limited | UK | Retail | Ordinary - 100% |
| Karen Millen Deutschland GmbH | Germany | Retail | Ordinary - 100% |
| Karen Millen Holland BV | Netherlands | Retail | Ordinary - 100% |
| Karen Millen France SARL | France | Retail | Ordinary - 100% |
| Karen Millen Spain SL | Spain | Retail | Ordinary - 100% |
| Karen Millen Norway AS | Norway | Retail | Ordinary - 100% |
| Karen Millen Hong Kong Limited | Hong Kong | Retail | Ordinary - 100% |
| Karen Millen (Shanghai) Commercial Co Ltd | China | Retail | Ordinary - 100% |
| Karen Millen Retail Limited | UK | Property | Ordinary - 100% |
| Karen Millen Fashions Limited | UK | Retail | Ordinary - 100% |
| Karen Millen Australia Pty Limited | Australia | Retail | Ordinary - 100% |
| Karen Millen New Zealand Limited | New Zealand | Retail | Ordinary - 100% |
| Karen Millen Belgium | Belgium | Retail | Ordinary - 100% |
| Amoushka G Limited | UK | Dormant | Ordinary - 100% |

Aurora Fashions Finance Limited

Notes forming part of the financial statements (continued)

For the period 1 March 2015 to 27 February 2016

11. Debtors

| | 27 February 2016 £m | 28 February 2015 £m |
|------------------------------------|------------------------|------------------------|
| Amounts owed by group undertakings | - | 72.0 |
| Loans owed by group undertakings | <u>80.1</u> | <u>-</u> |
| | <u>80.1</u> | <u>72.0</u> |
| Due within one year | 8.6 | 72.0 |
| Due after more than one year | 71.5 | - |

The loans owed to the Company by group undertakings which fall due after more than one year are repayable in two stages up to the termination date in 2020. Interest is accrued on these loans at a rate of 5% and added to the principal loan balance.

12. Creditors: amounts falling due within one year

| | 27 February 2016 £m | 28 February 2015 £m |
|-------------------------------------|------------------------|------------------------|
| Bank loans and overdrafts (note 14) | 69.7 | 33.6 |
| Subordinated debt (note 14) | 48.3 | - |
| Other taxation and social security | 2.5 | 2.5 |
| Accruals and deferred income | <u>-</u> | <u>0.1</u> |
| | <u>118.5</u> | <u>36.2</u> |

13. Creditors: amounts falling due after more than one year

| | 27 February 2016 £m | 28 February 2015 £m |
|-------------------------------------|------------------------|------------------------|
| Bank loans and overdrafts (note 14) | <u>117.4</u> | <u>42.4</u> |

Aurora Fashions Finance Limited

Notes forming part of the financial statements (continued)

For the period 1 March 2015 to 27 February 2016

14. Loans

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

| | 27 February 2016 £m | 28 February 2015 £m |
|---|------------------------|------------------------|
| Creditors falling due more than one year | | |
| Secured bank loans | <u>117.4</u> | <u>42.4</u> |
| Creditors falling due within less than one year | | |
| Overdraft | 69.7 | 33.6 |
| Subordinated debt | <u>46.3</u> | <u>-</u> |
| | <u>116.0</u> | <u>33.6</u> |

There is security between the banking sub groups, Oasis and Warehouse, Coast and Karen Millen and certain of their trading subsidiaries in favour of Aurora Fashions Finance Limited, in the form of fixed and floating charges over the undertakings and all property and assets. The net book value of assets are contained within the individual entities' statutory accounts.

In the period, the Company drew down on a revolving credit facility that it holds with Kaupthing Bank hf in order to pass the funds directly on to other Aurora Group subsidiaries. These balances were outstanding at the year end, as presented in note 11.

Terms and debt repayment schedule:

| | Interest rate | 27 February 2016 £m | 28 February 2015 £m |
|--|---------------|------------------------|------------------------|
| Overdraft, Repayable on demand | 5.00% | 8.6 | - |
| Overdraft, Repayable on demand | LIBOR+5% | 61.1 | 33.6 |
| Interest rate of LIBOR + 3.25%, repayable 30 June 2018 | LIBOR+3.25% | 14.8 | 14.2 |
| Interest rate of LIBOR + 3.50%, repayable 30 June 2018 | LIBOR+3.50% | 47.1 | 28.2 |
| Interest rate of LIBOR + 3.75%, repayable 30 June 2018 | LIBOR+3.75% | 53.5 | - |
| Interest rate of nil, repayable 4 September 2021 | nil | 2.0 | - |
| Subordinated debt | nil | <u>46.3</u> | <u>-</u> |
| | | <u>233.4</u> | <u>76.0</u> |

As part of a Group reconstruction effected 2 October 2015, the external debt between the Karen Millen Group Limited and Kaupthing Bank hf was novated to Aurora Fashions Finance Limited. The termination date of this combined facility was then extended to 30 June 2017. An amendment letter executed in July 2016 further extended the termination date to 30 June 2018.

The subordinated debt of £46.3 million in the table above is repayable only in the event of the disposal, sale, listing or winding up of Karen Millen Group Limited or HS 524 Limited, both subsidiaries of the Group or, at the request of the lender, per a deed of amendment dated 28 February 2013, can be converted into ordinary redeemable shares, such shares having no voting or dividend rights.

The subordinated debt was novated from HS 524 Limited to the Company on 2 October 2015. The face value of the subordinated debt is £56.0 million and at the date of novation the fair value of the subordinated debt was £45.4 million. This resulted in a deemed distribution arising of £10.6 million. This has been recognised in the profit and loss account in "Income from share in group undertakings".

Aurora Fashions Finance Limited

Notes forming part of the financial statements (continued)

For the period 1 March 2015 to 27 February 2016

15. Share capital

| | 27 February 2016 £m | 28 February 2015 £m |
|---|------------------------|------------------------|
| Allotted, called up and fully paid: 5,135,804 Ordinary shares of £1.00 | 5.1 | 5.1 |

Holders of Ordinary shares are entitled to one vote in any circumstance per share held, and equal rights to dividends.

16. Guarantees and commitments

Certain companies within the Aurora Fashions Group, The 'banking subgroups' are party to the terms of a Senior Facilities Agreement (the "SFA") with Aurora Fashions Finance Limited (AFFL), exclusively as a borrower, the borrowers are Oasis and Warehouse Limited, Coast Debtco Limited and Karen Millen Holdings Limited. Each banking subgroup/silo under the obligations of their SFA has a number of group companies party to the SFA as Guarantors, the values of which are disclosed within the respective company accounts. Such guarantee shall continue under the restructured bank loans. Under the terms of the cross guarantee, an event of default in the Company or certain other companies in the sub group would mean that the lender, AFFL, has the ability to call on any of the other companies within the respective banking sub groups to step in to fulfil the obligations of that borrower/guarantor. An event of default could include an entity becoming insolvent. It should be noted that the call under the guarantee is on demand, and as such the demand is at the discretion of AFFL in its capacity as sole Lender.

As of 2 October 2015 there is security between the banking sub groups, Oasis and Warehouse, Coast and Karen Millen and certain of their trading subsidiaries in favour of AFFL, in the form of fixed and floating charges over the undertakings and all property and assets. The net book value of assets are contained within the individual entities' statutory accounts.

17. Related parties

The Company has a related party relationship with its directors, with the undertakings which form the Aurora Group and with its ultimate parent company, Kaupthing Bank hf.

The Company has taken advantage of the exemption in Financial Reporting Standard FRS 102 33.1A Related Parties Transactions not to disclose transactions with fellow wholly owned subsidiary undertakings of the group headed by Aurora Fashions Group Limited.

Kaupthing Bank hf. loans and overdrafts with a face value of £243.1 million (2015: £76.0 million) were outstanding at the period end.

18. Immediate and ultimate parent company and parent undertaking of larger group

The immediate parent company is Aurora Fashions Holdings Limited, a company incorporated in England and Wales.

The ultimate parent company and ultimate controlling party is Kaupthing Bank hf., a company incorporated in Iceland. The largest and smallest group in which the results of the Company are consolidated is that headed by Aurora Fashions Group Limited, incorporated in England and Wales. The consolidated financial statements of Aurora Fashions Group Limited are available from Aurora Fashions Group Limited, The Triangle, Stanton Harcourt Industrial Estate, Stanton Harcourt, Witney, Oxfordshire, OX29 5UT, UK.

19. Post balance sheet events

There are no significant post balance sheet events which affect the financial statements.

20. Explanation of transition to FRS 102 from old UK GAAP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 27 February 2016 and the comparative information presented in these financial statements for the year ended 28 February 2015.

This transition did not affect the reported financial position as at 4 March 2014 (the transition date) or the financial position and performance for the period ended 28 February 2015 as previously reported in accordance with UK GAAP, the Company's old basis of accounting. Therefore no adjustments have been made to any comparative figures to that included in the 2015 published financial statements, and no reconciliation has been presented.