

**Cath Kidston Group Limited**  
**Annual Report and Financial Statements**  
**52 week period ended 25 March 2018**

Registered number: 07180354



# Cath Kidston Group Limited

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# Cath Kidston Group Limited

## Strategic report

The Directors present their strategic report for the 52 week period ended 25 March 2018.

### Review of the business

The principal activity of the Group is that of designer, wholesaler and retailer of fabrics, home furnishing products and fashion accessories.

### Strategic Highlights

The period ended 25 March 2018 (FY 2018) was a period of unprecedented change and investment for the Cath Kidston Group. Strategic highlights are as follows:

- Total Group sales grew by 1.2% (3.7% on a comparable basis)<sup>1</sup>.
- UK sales increased by 5.1%, including a 20.3% growth in online sales, despite a difficult trading environment.
- The Group generated an operating loss in the year of £(19.6)m (FY 2017 restated: loss of £0.2m), and an underlying EBITDA<sup>2</sup> of £(10.5)m (FY 2017 restated: £8.4m) as upwards pressure on costs and tough underlying market conditions impacted business performance.
- Profitability in the period was adversely affected by the decline of sterling following the EU referendum in June 2016. The Group benefitted from substantial currency hedges in place before the referendum which delayed the financial impact on the Group from FY 2017 to FY 2018.
- International sales on a comparable basis<sup>1</sup> grew by 0.5% with Japan sales growing by 5.4% including on line growth of 163% (at constant currency), partly offset by weakness in the Middle East.
- 9 new stores were opened in Japan with 10 more new stores planned for FY 2019.
- New franchise deal in China signed with the potential to add 50 stores in the next 5 years.
- *Our operations in China were transitioned from an owned and operated model to a franchise business and we also closed our small retail businesses in France and Spain. This contributed to a decline in International sales in the year of 6.9% which we expect to be temporary (International sales in the first quarter of FY 2019 have returned to growth).*
- In June 2018 a refinancing was completed and £40m of funding was raised from equity sources to repay all term bank debt, provide additional liquidity and fund future growth. The Group's only external bank debt now is a revolving credit facility (RCF) which has been increased to £15m to fund the Group's seasonal stock purchases and which has no financial covenants attached.
- At 25 March 2018 the Group had 219 stores worldwide being 120 owned and operated stores (87 in the UK, 32 in Japan and 1 in China) plus 3 concession stores in Spain and 99 stores in Asia and the Middle East operated by Franchise partners.

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<sup>1</sup> Sales presented on a "comparable" basis exclude the Chinese, French and Spanish retail businesses as these have been closed and international sales are shown at constant rates of foreign exchange.

<sup>2</sup> For a breakdown of underlying EBITDA, please refer to note 7.

# Cath Kidston Group Limited

## Strategic report (continued)

### Results and performance

The consolidated income statement is set out on page 12. The Group made an operating loss of £19.6m (2017 restated: operating loss of £0.2m) and an operating loss before exceptional items of £17.3m (2017 restated: operating profit of £5.3m).

No dividends were paid or proposed in the period (2017: £nil).

	2018 (£m)	As restated 2017 (£m)	% Change
Group sales	130.7	129.1	1.2
Group sales (comparable basis)	128.3	123.8	3.6
UK sales	91.3	86.9	5.1
International sales	39.4	42.3	(6.9)
International sales (comparable basis)	37.1	36.9	0.5
Operating (loss)/profit	(19.6)	(0.2)	(9,700.0)
Operating (loss)/profit before exceptional items <sup>3</sup>	(17.3)	5.3	(426.4)
Underlying EBITDA	(10.5)	8.4	(225.0)

The Group continued to grow top-line sales in FY 2018, despite facing headwinds in many of the markets in which we operate.

Sales in the UK grew by 5.1% in a difficult market, driven by e-commerce sales increasing by 20.3% as more than 1 in 5 transactions were completed online.

Following the buyback of the Japanese franchise in 2015 we continue to invest in the market, opening a further 9 stores in the period and closing 5 and also growing our e-commerce platform by 152% (or 163% in constant currency) in its second year of operation. Our International sales in the period were adversely impacted by a strategic change in our operating model in China and the closure of our small retail businesses in France and Spain to focus on our Asian expansion and also from political instability within the Middle East. We are however excited by our ongoing growth in Japan where the brand is gaining increasing recognition and where we have thirty-two owned and operated stores and a successful website. In China our new franchise agreement with a new partner in China has the potential to open 50 stores in 5 years.

We have continued to bring newness to our ranges, with our three collaborations with Disney selling almost four times as much than the ranges launched in the prior period in the UK and worldwide. In the current period we will bring further new ranges and collaborations to our customers, including collaborations with New Balance and with Fearne Cotton launching in the autumn.

The weakening of sterling following the EU referendum increased the cost of stock purchases across the period as the impact worked its way through the supply chain. The Group was able to partially mitigate this impact through its hedging policy and strength of its international business although the overall effect of currency movements in the period has had a significantly adverse impact on the Group's profits in FY 2018.

<sup>3</sup> For a breakdown of exceptional items, please refer to note 7.

# Cath Kidston Group Limited

## Strategic report (continued)

### *Results and performance (continued)*

During the period ended 25 March 2018, a material error was identified in the translation of the financial position of foreign operations into presentation currency using historic exchange rates, rather than updating each year to average and closing exchange rates as required by IAS 21 *The effects of changes in foreign exchange rates*. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the comparative information for the period ended 26 March 2017 has been restated to correct this error.

As the correction of the error by retrospective restatement has a material impact on the Balance sheet at the beginning of the preceding period, an additional Balance sheet has been presented as at this date, being 28 March 2016.

### *Going Concern*

On 11 June 2018 the Group completed a refinancing exercise raising £40.0m of funding from equity sources. £24.3m was used to repay all of the Group's external term bank debt and £4.0m has been injected as cash into the business. The remaining £11.7m has been credit committee approved and is available to be injected into the business as and when required both for liquidity purposes and to fund future growth initiatives. The funding was satisfied by the issue of long dated loan notes in a Group subsidiary, interest thereon being rolled up and not payable in cash. The Group's only external bank debt now is a revolving credit facility (RCF) which has been increased to £15.0m to fund the Group's seasonal stock purchases and, as it is covered in full by an equity guarantee, the RCF has no financial covenants attached.

### *Key performance indicators*

Management drives business performance through the setting of clearly defined and measured key performance indicators (KPI's), taking appropriate action where required to enhance the financial results of the business.

The key financial performance indicators are noted in the table above. Additional KPIs that are used to monitor and manage the business are:

- Underlying EBITDA as a percentage of sales
- Like for like sales growth
- Stock turn
- Cash generation

We also focus on head office overheads with the target of continually improving the cost efficiency of the business, whilst at the same time investing to support growth in key strategic areas.

### *Future developments*

The Group continues to seek opportunities to increase the size of the retail portfolio in the UK and Japan markets, grow online sales globally, increase average order values and encourage repeat visits as well as attract new customers; and to develop and increase the wholesale customer base, which includes the Group's successful international activities and further store openings in Asia.

### *Principal risks and uncertainties*

#### *Economic environment*

The Group is reliant on discretionary consumer spending within the economy to provide demand for its products. The uncertain outlook, particularly in the UK, is impacting consumer spending and will also potentially impact on our trading partners and suppliers, dependent on their levels of indebtedness. The Board believes that a strong aspirational brand that continues to design interesting, differentiated and affordable products will be able to grow sales despite the pressures on consumer spending. The Group seeks to mitigate these risks by achieving a broad appeal for its products across a wide demographic and geographic spread. In particular, the growing demand for the Group's products in overseas markets will reduce the reliance on the UK consumer. This risk is further mitigated by the Group building its capacity to deliver products through a wide range of channels to market, ensuring it is positioned to react to changing consumer purchasing habits.

#### *Brexit*

The impact of Brexit on our business is currently unknown. Expectations are that there may be increased costs, inflation, higher taxes and lower incomes resulting in spending squeeze.

# Cath Kidston Group Limited

## Strategic report (continued)

### Principal risks and uncertainties (continued)

#### Natural disaster risks

Such events can negatively impact on consumer spending and provide logistical difficulties that need to be overcome. The Board believes that such risks are mitigated through diversification of its supply base and building global demand for its products.

#### Brand

The increasing popularity of the brand has exposed the Group to counterfeit risk, particularly in Asia. The Board remains vigilant in combating counterfeit cases and have significantly increased legal costs in order to minimise the exposure to this risk. The international expansion strategy will act as a natural deterrent to this risk by creating a legal presence in the countries where counterfeit products are being detected.

#### People

We are a creative business and rely on the know-how of our senior management and the creative skills of the design teams to create the products that attract customers and develop the sales and distribution channels that present these products to our customers. We are, therefore, exposed to the risk of key people leaving the business. We mitigate this risk by establishing processes and procedures to share the know-how within the business and by regularly reviewing our pay and benefits policies, including both short and medium term incentives, to ensure we remain competitive within our peer Group of companies.

#### Key trading partners and supply chain

The Group has a number of key partners (specifically suppliers of goods and services, distributors in Asia and department store operators in the UK) which it is reliant on for the on-going operations of its commercial activities. There is a risk that these suppliers may fail to produce goods to agreed deadlines or quality standards, that distributors fail to manage their operations effectively or that department stores deselect our products. We seek to mitigate these risks by maintaining strong collaborative relationships with such key trading partners and by developing relationships with new partners or prospective partners that provide alternative sources of products and sales as the business expands.

#### Foreign exchange

The Group has exposure to translation and transaction foreign exchange risk, both in terms of inflows due to its stores in overseas territories and our US website and outflows through its purchasing of goods and raw materials in currencies other than sterling. The Group monitors its exposure and takes out forward contracts to hedge movements in foreign exchange rates.

#### Financial

The Group monitors cash flow as part of its day-to-day control procedures. The Board considers cash flow projections on a quarterly basis and ensures appropriate investment decisions are made in light of these projections.

#### Financial risk management objectives and policies

The risks associated with financial instruments are discussed in note 31.

#### Charitable contributions and CSR

During the period the company made charitable contributions of £4,812 (2017: £11,340). CSR is embedded in our Group's core business objectives and is very much integrated in the day to day business culture and operations. All CSR programmes reflect our company values of being ethical and honest, approachable and inclusive.

As we continually strive to manage our business activities in a responsible way, our objective this period was to further embed our Group values to all our business processes, from product development and distribution, to store design.

We have continued to embed our Ethical Trading Policy within our global supply chain and ensure all new suppliers have been audited and understand the Cath Kidston standard. As the countries of supply extend from China, India and Thailand to further countries in South East Asia, we have evolved our audit programme in these new emerging markets for the Cath Kidston business.

#### Employee Involvement

Within the bounds of commercial confidentiality, information is disseminated to all members of staff about matters that affect the progress of the Group and are of interest and concern to them as employees.

# Cath Kidston Group Limited

## Strategic report (continued)

### Employment policy

The Group is committed to providing equal opportunities to all its employees from recruitment and selection, through training and development, appraisal and promotion, to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

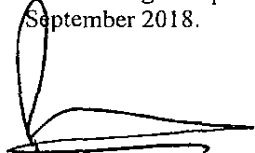
Every effort is made to ensure that people with disabilities should have full and fair consideration for all vacancies bearing in mind their aptitude. In the event of members of staff becoming disabled we endeavour to retain them in the workforce and ensure that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### Policy and practice on the payment of creditors

It is the Group's policy to agree payment terms as part of any formal contract with a supplier and to make every endeavour to abide by the agreed terms. Where a purchase is not covered by a formal contract and no agreement is reached in advance of raising an order, the policy is that any valid invoice will be paid in full. Average payment days were 73 days (2017: 74 days).

### Approval

This Strategic Report was approved on behalf of the Board of Directors and signed on behalf of the Board on 3 September 2018.



N Harrington  
Director

# Cath Kidston Group Limited

## Directors' report

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the 52 week period ended 25 March 2018.

Future events, financial risk management objectives and policies, employee consultation and dividends have been included in the Strategic report.

During the period ended 25 March 2018, a material error was identified in the translation of the financial position of foreign operations into presentation currency. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the comparative information for the period ended 26 March 2017 has been restated to correct this error. Refer to note 35 for detail regarding the prior period adjustment.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 31 to the financial statements.

### Existence of branches outside of the UK

The Group has branches, as defined in section 1046 (3) of the Companies Act 2006, outside the UK including:

- Ireland
- France
- Jersey
- Panama

### Directors

The directors, who served throughout the period and up to the date of this report, except as noted, were as follows:

K Albolote

W Flanz

N Harrington

M Paraie (appointed 18 June 2018)

G Peeters (Resigned 16 May 2018)

K Wilson (Resigned 14 July 2018)

S You

### Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its directors, which were made during the period and remain in force at the date of this report.

### Events after the balance sheet date

On 11 June 2018 the Group completed a refinancing exercise raising £40.0m of funding from equity sources. £24.3m was used to repay all of the Group's external term bank debt and £4.0m has been injected as cash into the business. The remaining £11.7m has been credit committee approved and is available to be injected into the business as and when required both for liquidity purposes and to fund future growth initiatives.

The Group was in dispute over the acquisition of the Japan business at the period end, however this has since been settled and the provision in the financial statements has been adjusted to reflect the outcome of the settlement.

## **Cath Kidston Group Limited**

### **Directors' report (continued)**

#### **Auditor**

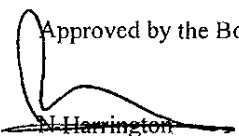
Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors and signed on behalf of the Board:



M. Harrington

Director

3 September 2018

Registered Office: Frestonia, 125 – 135 Freston Road, London, W10 6TH

## **Cath Kidston Group Limited**

### **Directors' responsibilities statement**

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 such financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Standards and applicable law including Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether 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.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

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

## **Cath Kidston Group Limited**

### **Independent auditor's report to the members of Cath Kidston Group Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 25 March 2018 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Cath Kidston Group Limited (the 'parent company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

##### **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 Group and the parent 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.

## **Cath Kidston Group Limited**

### **Independent auditor's report to the members of Cath Kidston Group Limited**

#### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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 Group's or the parent 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.

We have nothing to report in respect of these matters.

#### **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.

#### **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 Group's and the parent 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 Group or the parent company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

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

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

## **Cath Kidston Group Limited**

### **Independent auditor's report to the members of Cath Kidston Group Limited**

#### **Report on other legal and regulatory requirements**

#### ***Opinions on other matters prescribed by the Companies Act 2006***

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

- the information given in the Strategic Report and the Directors' Report for the financial 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.

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 any material misstatements in the Strategic Report and the Directors' Report.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

#### **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.



Emma Cox BA ACA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
3 September 2018

**Cath Kidston Group Limited**  
**Consolidated income statement**  
for the 52 week period ended 25 March 2018

	Note	2018 £000	As restated 2017 £000
Revenue	5	130,673	129,098
Cost of sales		(52,019)	(43,651)
<b>Gross profit</b>		<b>78,654</b>	<b>85,447</b>
Other operating income	5	437	851
Distribution and administration costs		(98,693)	(86,452)
Analysed as:			
<i>Exceptional items</i>	7	(3,197)	(5,468)
<i>Distribution and administration costs</i>		(95,496)	(80,984)
<b>Operating (loss)/profit</b>		<b>(19,602)</b>	<b>(154)</b>
Analysed as:			
<i>Exceptional items</i>	7	(3,197)	(5,468)
<i>Operating (loss)/profit before exceptional items</i>		(16,405)	5,314
Other gains and losses	11	(3,518)	(3,501)
Investment income	12	4	-
Finance costs	13	(19,217)	(16,332)
<b>Loss before tax</b>		<b>(42,333)</b>	<b>(19,987)</b>
Tax	14	3,048	(296)
<b>Loss for the period</b>		<b>(39,285)</b>	<b>(20,283)</b>
Attributable to:			
Owners of the Company		(29,472)	(19,419)
Non-controlling interest		(9,813)	(864)
		<b>(39,285)</b>	<b>(20,283)</b>

**Cath Kidston Group Limited**  
**Consolidated statement of comprehensive income**  
for the 52 weeks ended 25 March 2018

	2018 £000	As restated 2017 £000
<b>Loss for the period</b>	<b>(39,285)</b>	<b>(20,283)</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Available-for-sale financial assets		
Net fair value loss on available-for-sale financial assets during the period	-	(128)
Cash flow hedges		
Reclassification adjustments for amounts recognised in profit or loss	-	457
Exchange differences on translating foreign operations		
Exchange differences arising during the period	259	1,849
	259	2,178
Deferred tax relating to items that may be reclassified subsequently to profit or loss	-	(82)
Other comprehensive income for the period, net of income tax	259	2,096
<b>Total comprehensive loss for the period</b>	<b>(39,026)</b>	<b>(18,187)</b>
<b>Attributable to:</b>		
Owners of the Company	(29,294)	(17,978)
Non-controlling interest	(9,732)	(209)
	<b>(39,026)</b>	<b>(18,187)</b>

**Cath Kidston Group Limited**  
**Consolidated balance sheet**  
as at 25 March 2018

	Note	25 March 2018 £000	As restated 26 March 2017 £000	As restated 28 March 2016 £000
<b>Non-current assets</b>				
Intangible assets	15	85,537	85,722	84,888
Property, plant and equipment	16	13,804	12,828	14,893
Trade and other receivables	18	2,508	2,266	2,375
Other financial assets	19	-	4	-
Deferred tax asset	20	4,220	1,298	523
		<u>106,069</u>	<u>102,118</u>	<u>102,679</u>
<b>Current assets</b>				
Inventories	21	26,380	22,267	17,434
Trade and other receivables	18	12,668	12,204	9,956
Cash and bank balances		7,061	5,883	9,919
Current tax assets		-	44	139
Other financial assets	19	60	415	227
		<u>46,169</u>	<u>40,813</u>	<u>37,675</u>
<b>Total assets</b>		<u><b>152,238</b></u>	<u><b>142,931</b></u>	<u><b>140,354</b></u>
<b>Current liabilities</b>				
Trade and other payables	22	(25,952)	(24,788)	(24,374)
Current tax liabilities		(518)	(614)	-
Borrowings	23	(5,000)	-	(21,872)
Provisions	24	(1,701)	(710)	(146)
Other financial liabilities	19	(2,524)	(282)	-
Deferred revenue	25	(62)	(22)	(791)
		<u>(35,757)</u>	<u>(26,416)</u>	<u>(47,183)</u>
<b>Net current assets</b>		<u><b>10,412</b></u>	<u><b>14,397</b></u>	<u><b>(9,508)</b></u>
<b>Non-current liabilities</b>				
Trade and other payables	22	(3,548)	(3,920)	-
Borrowings	23	(183,282)	(144,786)	(131,126)
Deferred tax liabilities	20	(41)	(247)	-
Other financial liabilities	19	(637)	(17)	(457)
Provisions	24	(594)	(147)	(1,426)
		<u>(188,102)</u>	<u>(149,117)</u>	<u>(133,009)</u>
<b>Total liabilities</b>		<u><b>(223,859)</b></u>	<u><b>(175,533)</b></u>	<u><b>(180,192)</b></u>
<b>Net liabilities</b>		<u><b>(71,621)</b></u>	<u><b>(32,602)</b></u>	<u><b>(39,838)</b></u>

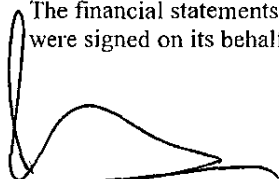
Registered number: 07180354

**Cath Kidston Group Limited**  
**Consolidated balance sheet (continued)**  
as at 25 March 2018

	Note	25 March 2018 £000	As restated 26 March 2017 £000	As restated 28 March 2016 £000
<b>Equity</b>				
Share capital	26	63	63	63
Share premium account		76	76	76
Hedging reserve		-	-	(128)
EBT Reserve		(40)	(35)	-
Retained earnings		(89,393)	(59,921)	(41,002)
Currency translation reserve		2,602	2,424	1,153
<b>Equity attributable to the owners of the Company</b>		<b>(86,692)</b>	<b>(57,393)</b>	<b>(39,838)</b>
Non-controlling interests		15,071	24,791	-
<b>Total equity</b>		<b>(71,621)</b>	<b>(32,602)</b>	<b>(39,838)</b>

Please refer to note 35 for detail regarding the prior period adjustment.

The financial statements were approved by the board of directors and authorised for issue on 3 September 2018. They were signed on its behalf by:



N Harrington  
Director  
3 September 2018

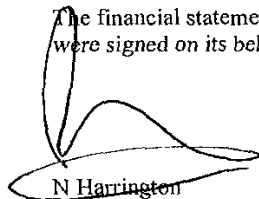
Registered number: 07180354

**Cath Kidston Group Limited**  
**Company balance sheet**  
as at 25 March 2018

	Note	2018 £000	2017 £000
<b>Non-current assets</b>			
Investments	17	<u>5,011</u>	<u>5,011</u>
		<u>5,011</u>	<u>5,011</u>
<b>Current assets</b>			
Trade and other receivables	18	<u>236</u>	<u>245</u>
		<u>236</u>	<u>245</u>
<b>Total assets</b>		<u><b>5,247</b></u>	<u><b>5,256</b></u>
<b>Current liabilities</b>			
Trade and other payables	22	<u>(4,299)</u>	<u>(4,237)</u>
		<u>(4,299)</u>	<u>(4,237)</u>
<b>Net current liabilities</b>		<u><b>(4,063)</b></u>	<u><b>(3,992)</b></u>
<b>Net assets</b>		<u><b>948</b></u>	<u><b>1,019</b></u>
<b>Equity</b>			
Share capital	26	63	63
Share premium account		76	76
Retained earnings		809	880
<b>Total equity</b>		<u><b>948</b></u>	<u><b>1,019</b></u>

The Company reported a loss for the financial period ended 25 March 2018 of £71,000 (2017: profit of £378,000)

The financial statements were approved by the board of directors and authorised for issue on 3 September 2018. They were signed on its behalf by:



N Harrington  
Director  
3 September 2018

Registered number: 07180354

**Cath Kidston Group Limited**  
**Consolidated statement of changes in equity**

	Share capital £000	Share premium £000	Hedging reserve £000	EBT reserve £000	Currency translation reserve £000	Retained earnings £000	Attributable to owners of the Company £000	Non-controlling interest £000	Total equity £000
As restated balance at 28 March 2016	63	76	(128)	-	1,153	(41,002)	(39,838)	-	(39,838)
Loss for the Period	-	-	-	-	-	(19,419)	(19,419)	(864)	(20,283)
Other Comprehensive Income for the Period	-	-	-	-	1,271	170	1,441	655	2,096
<b>Total Comprehensive Income for the Period</b>	-	-	-	-	1,271	(19,249)	(17,978)	(209)	(18,187)
Own shares acquired in the period	-	-	-	(35)	-	-	(35)	-	(35)
Other movement in comprehensive income	-	-	128	-	-	330	458	-	458
Adjustment arising from change in non-controlling interest (note 17)	-	-	-	-	-	-	-	25,000	25,000
As restated balance at 26 March 2017	63	76	-	(35)	2,424	(59,921)	(57,393)	24,791	(32,602)
Loss for the Period	-	-	-	-	-	(29,472)	(29,472)	(9,813)	(39,285)
Other Comprehensive Income for the Period	-	-	-	-	178	-	178	81	259
<b>Total Comprehensive Income for the Period</b>	-	-	-	-	178	(29,472)	(29,294)	(9,732)	(39,026)
Own shares acquired in the period	-	-	-	(5)	-	-	(5)	-	(5)
Issue of share capital	-	-	-	-	-	-	-	12	12
<b>Balance at 25 March 2018</b>	<b>63</b>	<b>76</b>	<b>-</b>	<b>(40)</b>	<b>2,602</b>	<b>(89,393)</b>	<b>(86,692)</b>	<b>15,071</b>	<b>(71,621)</b>

**Cath Kidston Group Limited**  
**Company statement of changes in equity**

		£000		
	Share Capital	Share Premium	Retained Earnings	Total Equity
Balance at 27 March 2016	63	76	502	641
Profit for the period	-	-	378	378
Total comprehensive income for the period	-	-	378	378
<b>Balance at 26 March 2017</b>	<b>63</b>	<b>76</b>	<b>880</b>	<b>1,019</b>
Loss for the period	-	-	(71)	(71)
Total comprehensive income for the period	-	-	(71)	(71)
<b>Balance at 25 March 2018</b>	<b>63</b>	<b>76</b>	<b>809</b>	<b>948</b>

**Cath Kidston Group Limited**  
**Consolidated cash flow statement**  
For the 52 weeks ended 25 March 2018

	Note	2018 £000	As restated 2017 £000
Net cash (used in)/from operating activities	27	(14,916)	2,791
<b>Investing Activities</b>			
Purchases of property, plant and equipment		(8,277)	(4,432)
Purchases of patents and trademarks		(312)	(296)
<b>Net cash used in investing activities</b>		<b>(8,589)</b>	<b>(4,728)</b>
<b>Financing Activities</b>			
Interest paid		(1,764)	(3,102)
Repayments of borrowings		-	(21,849)
Proceeds on disposal of partial interest in a subsidiary that does not involve loss of control		-	25,000
Purchase of shareholder shares		(5)	(37)
New bank loans raised		26,000	-
<b>Net cash from financing activities</b>		<b>24,231</b>	<b>12</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>726</b>	<b>(1,925)</b>
Cash and cash equivalents at the beginning of the period		5,883	9,919
Effect of foreign exchange rate changes		452	(2,111)
<b>Cash and cash equivalents at the end of the period</b>		<b>7,061</b>	<b>5,883</b>

# **Cath Kidston Group Limited**

## **Notes to the consolidated financial statements**

For the 52 weeks ended 25 March 2018

### **1. General information**

Cath Kidston Group Limited (the Company) is a private company limited by shares incorporated in the United Kingdom under the Companies Act.

The address of the Company's registered office is shown on page 7.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the strategic report on pages 1 to 5.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

During the period ended 25 March 2018, a material error was identified in the translation of the financial position of foreign operations into presentation currency. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the comparative information for the period ended 26 March 2017 has been restated to correct this error. Refer to note 35 for detail regarding the prior period adjustment.

For the period ending 25 March 2018 the following subsidiaries of the Company were entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies:

<b>Subsidiary name</b>	<b>Companies House registration number</b>
Cath Kidston Limited	02808583
Cath Kidston Acquisitions Limited	07180438
Cath Kidston EBT Limited	07548914

### **2. Adoption of new and revised Standards**

#### **2.1. Amendments to IFRSs that are mandatorily effective for the current period**

In the current period, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017.

##### **Amendments to IAS 7 Disclosure Initiative**

The Group has applied these amendments for the first time in the current period. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings (note 23) and certain other financial liabilities (note 19). The movement of these items is provided in notes 19 and 23. The application of these amendments has had no impact on the Group's consolidated financial statements.

##### **Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses**

The Group has applied these amendments for the first time in the current period. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

##### **Annual Improvements to IFRSs 2014-2016 Cycle**

The Group has applied the amendments to IFRS 12 included in the *Annual Improvements to IFRSs 2014-2016 Cycle* for the first time in the current period. The other amendments included in this package are not yet mandatorily effective and they are not being early adopted by the Group.

# **Cath Kidston Group Limited**

## **Notes to the consolidated financial statements**

For the 52 weeks ended 25 March 2018

### **2. Adoption of new and revised Standards (continued)**

#### **Annual Improvements to IFRSs 2014-2016 Cycle (continued)**

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal Group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal Group that is classified, as held for sale.

#### **New and revised IFRSs in issue but not yet effective**

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
IFRS 16	<i>Leases</i>
Amendments to IFRSs	<i>Annual Improvement to IFRS Standards 2014-2016 Cycle</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

#### **IFRS 9 Financial Instruments**

The Group will apply IFRS 9 from 26 March 2018. The Group has elected not to restate comparatives on initial application of IFRS 9. The full impact of adopting IFRS 9 on the Group's consolidated financial statements will depend on the financial instruments that the Group has during 2018-2019 as well as on economic conditions and judgements made as at the period end. IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities; and a new model for recognising provisions based on expected credit losses. The Group will perform an assessment of potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships as at the date of initial application of IFRS 9 (26 March 2018).

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2016. The Group is required to adopt IFRS 15 for the period ending 31 March 2019 and will adopt modified retrospective approach without restatement of comparatives.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

# **Cath Kidston Group Limited**

## **Notes to the consolidated financial statements**

For the 52 weeks ended 25 March 2018

### **2. Adoption of new and revised Standards (continued)**

#### **IFRS 15 Revenue from Contracts with Customers (continued)**

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue from the following major sources:

- Retail and e-commerce sale of goods; and
- Wholesale sales of goods

#### **IFRS 16 Leases**

IFRS 16, which has not yet been endorsed by the EU, introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The Group currently expects to adopt IFRS 16 for the period ending 29 March 2020. No decision has been made about whether to use any of the transitional options in IFRS 16.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

Furthermore, the classification of cash flows will also be affected because operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Furthermore, extensive disclosures are required by IFRS 16.

As at 25 March 2018, the Group has non-cancellable operating lease commitments of £85.7m. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

### **3. Significant accounting policies**

#### **Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The Company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015.

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. The financial statements have therefore been prepared in accordance with FRS 101.

# **Cath Kidston Group Limited**

## **Notes to the consolidated financial statements**

For the 52 weeks ended 25 March 2018

### **3. Significant accounting policies (continued)**

#### **Basis of accounting (continued)**

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. *Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

#### **Going concern**

During the period, the Group made a total comprehensive loss of £39.0m (2017: loss of £18.2m) and the balance sheet shows net liabilities of £71.6m (2017: net liabilities of £32.6m), including shareholder loan notes and accrued interest thereon of £160.0m (2017: £121.8m) and cash and bank balances of £7.0m (2017: £5.9m). The directors have considered the situation and have concluded that it is appropriate to prepare the financial statements on the going concern basis.

On 11 June 2018 the Group completed a refinancing exercise raising £40.0m of funding from equity sources. £24.3m was used to repay all of the Group's external term bank debt and £4.0m has been injected as cash into the business. The remaining £11.7m has been credit committee approved and is available to be injected into the business as and when required both for liquidity purposes and to fund future growth initiatives. The funding was satisfied by the issue of long dated loan notes in a Group company, interest thereon being rolled up and not payable in cash. The Group's only external bank debt now is a revolving credit facility (RCF) which has been increased to £15.0m to fund the Group's seasonal stock purchases and, as it is covered in full by an equity guarantee, the RCF has no financial covenants attached.

The Directors have considered the Group's cash flow forecasts, loan facilities available and support from the Group's shareholders, and have concluded that there will be sufficient resources available to meet the Group's liabilities as they fall due 12 months from the date of signing. As a result, the financial statements have been prepared on a going concern basis.

# **Cath Kidston Group Limited**

## **Notes to the consolidated financial statements**

For the 52 weeks ended 25 March 2018

### **3. Significant accounting policies (continued)**

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to the balance sheet date each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intra Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

#### **Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively; and
- assets (or disposal Groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

# **Cath Kidston Group Limited**

## **Notes to the consolidated financial statements**

For the 52 weeks ended 25 March 2018

### **3. Significant accounting policies (continued)**

#### **Business combinations (continued)**

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for *within equity*. *Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.*

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

#### **Goodwill**

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

**Cath Kidston Group Limited**  
**Notes to the consolidated financial statements**  
For the 52 weeks ended 25 March 2018

**3. Significant accounting policies (continued)**

**Revenue recognition (continued)**

***Sale of Goods***

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to 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 entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of goods that result in award credits for customers, under the Group's loyalty scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction – but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

***Royalties***

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably). Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

***Dividend and Investment income***

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Investment income arising from financial assets, is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. It is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

***Leases***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

# **Cath Kidston Group Limited**

## **Notes to the consolidated financial statements**

For the 52 weeks ended 25 March 2018

### **3. Significant accounting policies (continued)**

#### **Leases (continued)**

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **Foreign currencies**

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used.

#### **Operating profit**

Operating profit is stated after charging restructuring costs.

#### **Retirement benefit costs**

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

#### **Taxation**

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

#### **Current tax**

Current tax is based on taxable profit/loss for the period. Taxable profit differs from net profit as reported in the income statement 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**Cath Kidston Group Limited**  
**Notes to the consolidated financial statements**  
For the 52 weeks ended 25 March 2018

**3. Significant accounting policies (continued)**

**Taxation (continued)**

***Current tax (continued)***

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

***Deferred taxation***

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

***Current tax and deferred tax for the period***

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided at rates calculated to write off the cost of assets, less their estimated residual values, over their expected useful lives, using the straight-line method, on the following bases:

**Cath Kidston Group Limited**  
**Notes to the consolidated financial statements**  
For the 52 weeks ended 25 March 2018

**3. Significant accounting policies (continued)**

**Property, plant and equipment (continued)**

Leasehold property	-	Term of lease
Office equipment	-	25% per annum
Fixtures and fittings	-	25% per annum
Computer equipment	-	25% - 50% per annum
Plant and machinery	-	10% - 33% per annum

Assets under construction are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other assets of the same class, commences when the assets are ready for their intended use.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

**Patents and trademarks**

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

**Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group 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 to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal 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.

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.

**Cath Kidston Group Limited**  
**Notes to the consolidated financial statements**  
For the 52 weeks ended 25 March 2018

**3. Significant accounting policies (continued)**

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the standard cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**Financial instruments**

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

If the transaction price differs from fair at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised as a gain or loss on initial recognition (i.e. day 1 profit or loss); and
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss such that it reaches a value of zero at the time when the entire contract can be valued using active market quotes or verifiable objective market information. The Group will release the day 1 gain or loss in a reasonable fashion based on the facts and circumstances (i.e. using either straight-line or non-linear amortisation depending on the type of financial instrument).

**Financial assets**

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

**Financial assets at FVTPL**

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the income statement. Fair value is determined in the manner described in note 31.

**Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

# **Cath Kidston Group Limited**

## **Notes to the consolidated financial statements**

For the 52 weeks ended 25 March 2018

### **3. Significant accounting policies (continued)**

#### **Financial instruments (continued)**

##### ***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet 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 of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

##### ***Reclassification of financial assets***

Reclassifications of financial assets are limited to debt instruments and they are accounted for at the fair value of the financial asset at the date of reclassification.

##### ***Derecognition of financial assets***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss

# **Cath Kidston Group Limited**

## **Notes to the consolidated financial statements**

For the 52 weeks ended 25 March 2018

### **3. Significant accounting policies (continued)**

#### **Financial instruments (continued)**

##### ***Derecognition of financial assets (continued)***

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

##### ***Financial liabilities and equity***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

##### ***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

##### ***Financial liabilities***

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

##### ***Financial liabilities at FVTPL***

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

The Group carries at FVTPL following liabilities: derivatives not designated in hedge relationships.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement. Fair value is determined in the manner described in note 31.

##### ***Other financial liabilities***

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

##### ***Derecognition of financial liabilities***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Groups accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

**Cath Kidston Group Limited**  
**Notes to the consolidated financial statements**  
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**3. Significant accounting policies (continued)**

**Financial instruments (continued)**

***Derecognition of financial liabilities (continued)***

It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

***Derivative financial instruments***

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 19.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

***Restructurings***

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

***Onerous contracts***

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

**Exceptional items**

Certain items are considered to be exceptional, where, in the judgement of the Directors, by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business, they need to be disclosed separately. Examples of items which may give rise to disclosure as exceptional include restructuring costs, refinancing costs, costs related to one-off acquisitions and disposals, impairments of assets associated with loss making stores.

**Cath Kidston Group Limited**  
**Notes to the consolidated financial statements**  
For the 52 weeks ended 25 March 2018

**3. Significant accounting policies (continued)**

**Investments in subsidiaries**

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment.

**4. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.*

For the Company, there were no critical accounting judgements that would have a significant effect on the amounts recognised in its financial statements or key sources of estimation uncertainty at the balance sheet date that would have a significant risk and cause a material adjustment to the carrying amounts of the assets and liabilities within the next financial period.

**Critical judgements in applying the Group's accounting policies**

There are no critical judgements that the directors have made in the process of applying the Group's accounting policies and that have a significant effect on the amounts recognised in financial statements.

**Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***Impairment of property, plant and equipment and intangible assets***

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment 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 to determine the extent of the impairment loss (if any). This impairment relates to store assets where stores are loss making or expected to be loss making and each store is considered to be a cash-generating unit.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

The Group estimates the recoverable amount of the assets associated with each store. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are determined using store forecasts and appropriate growth rates and are discounted to their present value using a suitable discount rate.

Please refer to note 15 for further information.

***Impairment of goodwill***

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £84.5 million. Please refer to note 16 for further information.

***Onerous contracts***

Present obligations arising under onerous contracts are recognised and measured as provisions. Onerous contracts are considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefit expected to be received under the contract. As of 25 March 2018, the provision for onerous contracts amounts to £1.9m (2017: £0.9 million) and relates to operating lease contracts for properties for where no economic benefits are expected. Further details can be found in note 24.

**Cath Kidston Group Limited**  
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**5. Revenue**

Revenue is solely attributable to continuing operations and derived mainly from the sale of goods. An analysis of the Group's revenue is as follows:

	<b>2018</b>	<b>As restated 2017</b>
	<b>£000</b>	<b>£000</b>
Sale of goods	130,673	129,098
Other operating income	437	851
	<u>131,110</u>	<u>129,949</u>

**6. Operating segments**

**Revenue by class**

The Group's revenues by class were as follows.

	<b>2018</b>	<b>As restated 2017</b>
	<b>£000</b>	<b>£000</b>
Retail	105,379	105,588
Wholesale and licencing	25,294	23,510
	<u>130,673</u>	<u>129,098</u>

**Geographical information**

	<b>2018</b>	<b>As restated 2017</b>
	<b>£000</b>	<b>£000</b>
Sales destination		
United Kingdom	91,306	86,763
European Union	7,708	8,841
Rest of the world	31,659	33,494
	<u>130,673</u>	<u>129,098</u>

**Cath Kidston Group Limited**  
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**7. Non-GAAP measures**

**Underlying EBITDA**

	<b>2018</b>	<b>As restated</b>
	<b>£000</b>	<b>2017</b>
		<b>£000</b>
Operating loss	(19,602)	(154)
Depreciation of property, plant and equipment	6,027	6,278
Impairment of property, plant and equipment	1,018	542
Amortisation of intangible assets	170	169
Other gains and losses (see note 11)	(3,518)	(3,501)
<b>EBITDA</b>	<b>(15,905)</b>	<b>3,334</b>
Exceptional items excluding impairment of property, plant and equipment (see below)	2,179	4,926
Fair value movement in forward rate agreements	3,221	108
<b>Underlying EBITDA</b>	<b>(10,505)</b>	<b>8,368</b>

***Fair value movement in forward rate agreements***

A fair value movement of £3,221,000 (2017: £108,000) was made in the period in respect of forward rate agreements entered into by the Group.

**Cath Kidston Group Limited**  
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**7. Non-GAAP measures (continued)**

**Exceptional Items**

The following exceptional items have been charged/(credited) to loss before tax.

	2018 £000	As restated 2017 £000
Included within operating profit:		
Onerous lease provision/(release)	451	(457)
Impairment of property, plant and equipment	1,018	542
Restructuring	355	357
Refinancing of the Cath Kidston Group	155	3,721
Store closure costs	996	822
Acquisition of subsidiary	215	483
Other	7	-
	<hr/> 3,197	<hr/> 5,468
Included within finance cost:		
Discount unwind on onerous lease provision	34	35
	<hr/> 34	<hr/> 35
<b>Total exceptional items</b>	<hr/> <b>3,231</b>	<hr/> <b>5,503</b>

***Onerous leases and impairments***

An onerous lease provision charge of £451,000 (2017: release of £457,000) and impairments of £1,018,000 (2017: £542,000) were made in respect of unprofitable stores within the Group under non-cancellable operating leases. This relates to provisions made in previous periods where the cost was recorded as exceptional. The Group has changed its policy in this regard and new provisions are no longer classified as exceptional items.

Discount unwind included within finance costs relating to the provision totalled £34,000 (2017: £35,000).

***Restructuring***

Restructuring costs of £355,000 (2017: £357,000) were recorded in the period related to head office and store restructuring costs. The costs incurred in 2017 mainly related to the cost of capital restructure following the refinancing of the Group and the Group's decision to close the business in France.

**Cath Kidston Group Limited**  
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**7. Non-GAAP measures (continued)**

**Refinancing of the Cath Kidston Group**

Refinancing costs of £155,000 were incurred in the period (2017: £3,721,000) following Baring Private Equity Asia ("Baring Asia") in 2017 acquiring the equity stake of TA Associates, the US private equity company, becoming the controlling majority shareholder in the Group. As part of the transaction, Baring Asia injected £25m of funding into the Group in 2017, which was used to repay some of the Group's bank debt.

**Store closure costs**

Store closure costs of £996,000 (2017: £822,000) were recorded in the period. These relate to the 2018 Group-wide store closure programme and the 2017 store closure programme in China which are considered exceptional in nature due to the size and scale of these programmes.

**Acquisition of subsidiary**

In September 2015, the Group acquired the Japanese business from its franchise partner. Additional costs incurred in the period resulting from this acquisition totalled £215,000 (2017: £483,000).

**8. Loss for the period**

Loss for the period has been arrived at after charging / (crediting):

	<b>2018</b>	<b>As restated</b>
	<b>£000</b>	<b>2017</b>
		<b>£000</b>
Net foreign exchange losses/(gains)	1,658	(6,185)
Depreciation of property, plant and equipment	6,027	6,278
Impairment of property, plant and equipment	1,018	542
Loss/(gain) on disposal of property, plant and equipment	107	(115)
Amortisation of intangible assets	170	169
Staff costs (see note 10)	32,260	30,809
Operating lease rentals	18,744	18,481
Exceptional items excluding impairment of property, plant and equipment (see note 7)	2,179	4,926
Movement in allowance for doubtful debts	(59)	15

As permitted by section 408 of Companies Act 2006, the Company has elected not to present its own profit and loss account for the period. The Company has reported a loss for the 52 weeks ended 25 March 2018 of £71,000 (2017: profit of £378,000).

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**9. Auditor's remuneration**

The analysis of the auditor's remuneration is as follows:

	<b>2018</b> <b>£000</b>	<b>As restated</b> <b>2017</b> <b>£000</b>
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	163	195
Fees payable to the Company's auditor and their associates for other services to the Group		
Audit of the Company's subsidiaries	4	10
<b>Total audit fees</b>	<b>167</b>	<b>205</b>

No non-audit services were provided during the period to the Group (2017: £nil).

**10. Staff costs**

The average monthly number of employees of the Group (including executive directors) was:

	<b>2018</b> <b>Number</b>	<b>2017</b> <b>Number</b>
Selling	588	618
Administration	239	229
<b>Total</b>	<b>827</b>	<b>847</b>

The average monthly number of employees (including executive directors) of the Company was 3 in administration (2017: 3 in administration).

The aggregate staff remuneration of the Group comprised:

	<b>2018</b> <b>£000</b>	<b>As restated</b> <b>2017</b> <b>£000</b>
Wages and salaries	29,434	28,028
Social security costs	2,092	2,316
Other pension costs	734	465
	<b>32,260</b>	<b>30,809</b>

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**10. Staff costs (continued)**

The aggregate staff remuneration of the Company comprised:

	<b>2018</b>	<b>As restated</b>
	<b>£000</b>	<b>2017</b>
		<b>£000</b>
Wages and salaries	1,028	1,076
Social security costs	125	132
Other pension costs	17	17
	<u>1,170</u>	<u>1,225</u>

**11. Other gains and losses**

	<b>2018</b>	<b>As restated</b>
	<b>£000</b>	<b>2017</b>
		<b>£000</b>
Realised losses on forward rate agreements	(3,518)	(3,501)
	<u>(3,518)</u>	<u>(3,501)</u>

No other gains or losses have been recognised in respect of loans and receivables, other than impairment losses recognised/reversed in respect of trade receivables (see note 18).

**12. Investment income**

	<b>2018</b>	<b>As restated</b>
	<b>£000</b>	<b>2017</b>
		<b>£000</b>
Investment income:		
Bank deposits	2	-
Other loans and receivables	2	-
	<u>4</u>	<u>-</u>

Investment income relates to revenue earned on financial assets classified as loans and receivables.

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**13. Finance costs**

	<b>2018 £000</b>	<b>As restated 2017 £000</b>
Interest on bank overdrafts and loans	1,909	2,714
Interest on shareholder loans	17,274	13,583
	<u>19,183</u>	<u>16,297</u>
Unwinding of discount on provisions	34	35
	<u><b>19,217</b></u>	<u><b>16,332</b></u>

**14. Tax**

	<b>2018 £000</b>	<b>As restated 2017 £000</b>
Corporation tax:		
Current period	-	-
Adjustments in respect of prior periods	65	606
Foreign tax suffered	13	301
	<u>78</u>	<u>907</u>
Deferred tax:		
Current period	(3,314)	(751)
Adjustments in respect of prior periods	(68)	4
Effect of change in tax rates	256	136
	<u>(3,126)</u>	<u>(611)</u>
	<u><b>(3,048)</b></u>	<u><b>296</b></u>

Corporation tax is calculated at 19 per cent (2017: 20 per cent) of the estimated taxable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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**14. Tax (continued)**

The (credit)/charge for the period can be reconciled to the loss in the consolidated income statement as follows:

	2018 £000	As restated 2017 £000
Loss before tax	(42,333)	(19,987)
Tax at the UK corporation tax rate of 19% (2017: 20%)	(8,044)	(3,997)
Effects of:		
Tax effect of expenses that are not deductible in determining taxable profit	2,313	2,550
Tax effect of adjustments to tax charge in respect of previous periods	(2)	610
Tax effect of overseas losses no deferred tax recognised	2,350	-
Overseas tax rates	-	852
Tax rate changes	335	168
Other	-	113
Tax (credit)/charge for the period	<u>(3,048)</u>	<u>296</u>

In addition to the amount charged to the consolidated income statement, the following amounts relating to tax have been recognised in other comprehensive income:

	2018 £000	As restated 2017 £000
Deferred tax:		
Items that may be reclassified subsequently to profit or loss:		
Available for sale financial assets		
Gains arising during the period	-	82
Total income tax recognised in other comprehensive income	<u>-</u>	<u>82</u>

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**15. Intangible Assets**

	<b>Goodwill £000</b>	<b>Patents and Trademarks £000</b>	<b>Total £000</b>
<b>Cost or valuation</b>			
At 27 March 2016 (restated)	84,158	964	85,122
Additions	-	296	296
Foreign exchange	693	-	693
At 26 March 2017 (restated)	84,851	1,260	86,111
Additions	-	312	312
Foreign exchange	(327)	-	(327)
<b>At 25 March 2018</b>	<b>84,524</b>	<b>1,572</b>	<b>86,096</b>
<b>Amortisation and impairment</b>			
At 27 March 2016 (restated)	-	234	234
Provided during the period	-	169	169
Foreign exchange	-	(14)	(14)
At 26 March 2017 (restated)	-	389	389
Provided during the period	-	170	170
<b>At 25 March 2018</b>	<b>-</b>	<b>559</b>	<b>559</b>
<b>Net book value at 25 March 2018</b>	<b>84,524</b>	<b>1,013</b>	<b>85,537</b>
Net book value at 26 March 2017 (restated)	84,851	871	85,722

There are no intangible assets recognised in the Company.

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**15. Intangible assets (continued)**

**Goodwill**

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) or Group of units that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2018	As restated 2017
	£000	£000
Cath Kidston Group Limited	79,556	79,556
Cath Kidston Japan K.K.	4,968	5,295
	<b>84,524</b>	<b>84,851</b>

The Group is obliged to test goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired due to the goodwill deemed to have an indefinite life.

In order to perform this test, management are required to compare the carrying value of the relevant CGU including the goodwill with the recoverable amount. The recoverable amounts of the CGU are determined from a value in use calculation. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimate discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows based on the average long term growth rate of 1.5% for Cath Kidston Group and Cath Kidston Japan K.K., which do not exceed the long-term growth rate for the relevant market. The post-tax rate used to discount the forecast cash flows is 9.5%.

The Group has also conducted a sensitivity analysis on the impairment test of the CGU carrying value including reducing cash inflows and changing discount rates. As set out in the Strategic Report, trading conditions for many retailers in UK retail sector remain challenging, driven by a widely reported decline in consumer confidence and footfall and adverse cost headwinds. Whilst overall UK sales increased by 5.1% last year, this was driven by growth in the online business with comparable sales in UK stores declining in FY18 and this pattern has continued into early FY19.

As a result, when considering the carrying value of goodwill, the directors have prepared a “downside” case which considerably de-risks the group’s five year plan on which the refinancing in June 2018 was predicated. This plan assumes that the difficult trading conditions and declining sales in UK retail continue throughout both FY19 and FY20. The “downside” forecast assumes that an improvement in trading back to normal levels does not occur until FY21, but it removes more than £12m of profit from the UK plan across FY19 and FY20 and assumes that the UK business makes no profit at all at the EBITDA level across these two years. The directors consider this to be a very cautious “downside” case. Goodwill headroom based on the “downside” forecast is £6m. There are a number of additional sensitivities under which an impairment in the range of £15m-£20m would arise, including a continuation of the Q1 FY19 total UK sales decline beyond 2020 in each year through to FY23.

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**16. Property, plant and equipment**

	Leasehold Property £000	Plant and Machinery £000	Office Equipment £000	Fixtures & Fittings £000	Computer Equipment £000	Assets under Construction £000	Total £000
<b>Cost or valuation</b>							
At 27 March 2016 (restated)	21,576	188	172	9,733	6,429	-	38,098
Additions	1,642	3	35	1,577	1,166	11	4,434
Adjustment	(37)	-	(2)	(205)	(76)	-	(320)
Disposals	(916)	(88)	-	(427)	(24)	-	(1,455)
Foreign exchange	247	8	1	56	37	-	349
At 26 March 2017 (restated)	22,512	111	206	10,734	7,532	11	41,106
Additions	1,982	2	3	2,934	1,105	2,251	8,277
Reclassification	442	-	1	255	(142)	(228)	328
Disposals	(4,180)	(24)	(29)	(2,648)	(492)	(4)	(7,377)
Foreign exchange	(223)	-	(3)	(86)	5	3	(304)
At 25 March 2018	20,533	89	178	11,189	8,008	2,033	42,030
<b>Depreciation and impairment</b>							
At 27 March 2016 (restated)	11,560	99	134	6,549	4,863	-	23,205
Provided during the period	3,586	5	25	1,433	1,229	-	6,278
Impairment	493	-	1	47	1	-	542
Adjustment	(255)	(2)	(2)	(83)	21	-	(321)
Disposals	(988)	(4)	(4)	(528)	(46)	-	(1,570)
Foreign exchange	129	-	(1)	17	(1)	-	144
At 26 March 2017 (restated)	14,525	98	153	7,435	6,067	-	28,278
Provided during the period	2,960	10	22	1,880	1,155	-	6,027
Impairment	771	-	-	232	15	-	1,018
Reclassification	275	(5)	-	32	28	-	330
Disposals	(4,123)	(23)	(29)	(2,545)	(550)	-	(7,270)
Foreign exchange	(106)	-	(1)	(72)	22	-	(157)
At 25 March 2018	14,302	80	145	6,962	6,737	-	28,226
Net book value at 25 March 2018	6,231	9	33	4,227	1,271	2,033	13,804
Net book value at 26 March 2017 (restated)	7,987	13	53	3,299	1,465	11	12,828

There are no fixed assets held in the Company.

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**17. Subsidiaries**

Information about the composition of the Group at the end of the reporting period is as follows:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights	Nature of business
Cath Kidston EBT Limited	United Kingdom	100%	Employee Benefit Trust
Cath Kidston PFSCo Limited	United Kingdom	100%	Holding Company
Cath Kidston MezzoCo Limited*	United Kingdom	68.75%	Holding Company
Cath Kidston Acquisitions Limited *	United Kingdom	68.75%	Holding Company
Cath Kidston Limited*	United Kingdom	68.75%	Retailer
Cath Kidston Spain S.L.U.*	Spain	68.75%	Retailer
Cath Kidston Asia Pacific Limited*	Hong Kong	68.75%	Wholesaler
Cath Kidston Trading (Shanghai) Ltd*	China	68.75%	Retailer
Cath Kidston Japan K.K.*	Japan	68.75%	Retailer

\*Companies not directly held by Cath Kidston Group Limited.

The registered address of all the United Kingdom subsidiaries is Frestonia, 125 – 135 Freston Road, London W10 6TH.

The registered address of Cath Kidston Spain S.L.U is 7<sup>th</sup> Floor, Plaza Marques de Salamanca 3-4, 28006, Madrid, Spain.

The registered address of Cath Kidston Asia Pacific Limited is Chang Leung Hui + Li CPA Ltd, 12<sup>th</sup> Floor, No. 3 Lockhart Road, Wanchai, Hong Kong.

The registered address of Cath Kidston (Shanghai) Ltd is Unit 205, 550 Wuding Road, JingAn District, 200040 Shanghai, China.

The registered address of Cath Kidston Japan K.K. is Omotesando Lab 3F, 3-5-43 Kita-Aoyama, Minato-Ku, Japan, 107-0061.

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**17. Subsidiaries (continued)**

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2018 %	2017 %	2018 £000	As restated 2017 £000	2018 £000	As restated 2017 £000
Cath Kidston MezzoCo Limited	31.25%	31.25%	(1,025)	42	(983)	42
Cath Kidston Acquisitions Limited	31.25%	31.25%	73	(1,216)	(1,143)	(1,216)
Cath Kidston Limited	31.25%	31.25%	(4,802)	(197)	(4,999)	(197)
Cath Kidston Spain S.L.U.	31.25%	31.25%	(34)	8	(26)	8
Cath Kidston Asia Pacific Limited	31.25%	31.25%	(1,351)	(79)	(1,430)	(79)
Cath Kidston Trading (Shanghai) Ltd	31.25%	31.25%	(189)	(177)	(366)	(177)
Cath Kidston Japan K.K.	31.25%	31.25%	(1,757)	(1,648)	(3,405)	(1,648)

**Non-controlling interests**

During September 2016, as part of the Group's refinancing, the Group sold a 31.25% share in the ordinary equity of its subsidiary Cath Kidston Mezzco Limited for consideration of £25m to Baring Asia. The Group has retained control over the subsidiary.

Company	2018 £000	2017 £000
Shares in Group undertakings	5,011	5,011
	<u>5,011</u>	<u>5,011</u>

**18. Trade and other receivables**

Included in non-current assets:

	Group 2018 £000	Group As restated 2017 £000
Other receivables	2,477	2,234
Prepayments and accrued income	31	32
	<u>2,508</u>	<u>2,266</u>

Trade and other receivables included in non-current assets for the Company are £nil (2017: £nil)

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**18. Trade and other receivables (continued)**

Included in current assets:

	Group 2018 £000	Group As restated 2017 £000	Company 2018 £000	Company 2017 £000
Trade receivables	2,206	3,109	-	-
Other receivables	967	364	71	67
Prepayments and accrued income	9,495	8,731	-	21
Amounts owed by Group undertakings	-	-	165	157
	<u>12,668</u>	<u>12,204</u>	<u>236</u>	<u>245</u>

The average credit period taken on sales of goods is 30 days (2017: 30 days).

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

The Group does not hold any collateral or other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is over 30 days outstanding) are still considered recoverable. The average age of these receivables is 106 days (2017: 38 days).

Amount receivable from the sale of goods can be analysed as follows:

**Ageing of past due but not impaired receivables**

	2018 £000	As restated 2017 £000
31 – 60 Days	129	302
61 – 90 Days	3	150
91 – 120 Days	51	351
Total	<u>183</u>	<u>803</u>

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**18. Trade and other receivables (continued)**

**Movement in the allowance for doubtful debts**

	<b>2018</b>	<b>As restated</b>
	<b>£000</b>	<b>2017</b>
		<b>£000</b>
Balance at the beginning of the period	(59)	(44)
Additional provision	-	(49)
Amounts recovered/written off	59	34
Balance at the end of the period	-	(59)

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

There is no impairment to trade receivables.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

**19. Other financial assets and liabilities**

	<b>2018</b>	<b>As restated</b>
	<b>£000</b>	<b>2017</b>
		<b>£000</b>
<b>Financial assets carried at fair value through profit or loss (FVTPL):</b>		
Derivatives that are not designated in hedge accounting relationships:		
Foreign currency options	-	252
Forward foreign currency contracts	60	167
<b>Total financial assets carried at fair value through profit or loss (FVTPL)</b>	<b>60</b>	<b>419</b>
Amount falling due for settlement within 12 months	60	415
Amount falling due for settlement after 12 months	-	4
	<b>60</b>	<b>419</b>

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**19. Other financial assets and liabilities (continued)**

	<b>2018 £000</b>	<b>As restated 2017 £000</b>
<b>Financial liabilities carried at fair value through profit or loss (FVTPL):</b>		
<i>Derivatives that are not designated in hedge accounting relationships:</i>		
Foreign currency options	14	64
Forward foreign currency contracts	3,147	235
<b>Total financial liabilities carried at fair value through profit or loss (FVTPL)</b>	<b>3,161</b>	<b>299</b>
Amount falling due for settlement within 12 months	2,524	282
Amount falling due for settlement after 12 months	637	17
	<b>3,161</b>	<b>299</b>

There are no derivative financial instruments held in the Company (2017: £nil)

The Group's derivatives are classified as being within level 2 of the fair value hierarchy.

Further details of derivative financial instruments are provided in note 31.

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**20. Deferred tax**

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	<b>Decelerated/ (Accelerated) tax depreciation £000</b>	<b>Temporary Differences £000</b>	<b>Provisions £000</b>	<b>Tax losses £000</b>	<b>Total £000</b>
At 26 March 2017 (restated)	267	13	243	-	523
Prior period charge	(4)	-	-	-	(4)
Credit/(charge) to profit or loss	618	(2)	(2)	-	614
Charge to other comprehensive income	-	-	(82)	-	(82)
At 26 March 2017 (restated)	881	11	159	-	1,051
Prior period charge	68	-	-	-	68
Credit to profit or loss	886	2	553	1,619	3,060
<b>At 25 March 2018</b>	<b>1,835</b>	<b>13</b>	<b>712</b>	<b>1,619</b>	<b>4,179</b>

	<b>2018 £000</b>	<b>2017 £000</b>
Deferred Tax Asset	4,220	1,298
Deferred Tax Liability	(41)	(247)
	<b>4,179</b>	<b>1,051</b>

There is no deferred taxation in the Company (2017: £nil).

At the balance sheet date, the Group has £9.5m unused tax losses (2017: £nil) available for offset against future profits.

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**21. Inventories**

	2018 £000	As restated 2017 £000
Raw materials	797	350
Finished goods and goods for resale	25,583	21,917
	<u>26,380</u>	<u>22,267</u>

The cost of inventories recognised as an expense during the year was £51.1 million (2017: £44.5 million).

There are no inventories held by the Company (2017: £nil).

**22. Trade and other payables**

Included in current liabilities.

	Group 2018 £000	Group As restated 2017 £000	Company 2018 £000	Company 2017 £000
Trade payables and accruals	22,696	20,691	-	-
Other payables	3,187	2,852	-	-
Other taxes and social security	69	1,245	-	-
Amounts owed to Group undertakings	-	-	4,299	4,237
	<u>25,952</u>	<u>24,788</u>	<u>4,299</u>	<u>4,237</u>

Included in non-current liabilities:

	Group 2018 £000	Group As restated 2017 £000
Other payables	3,548	3,920
	<u>3,548</u>	<u>3,920</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 73 days (2017: 74 days). For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The Directors consider that the carrying amount of trade payables approximates to their fair value. Other payables included in non-current liabilities for the Company are £nil (2017: £nil).

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**23. Borrowings**

	2018 £000	As restated 2017 £000
<b>Unsecured borrowing at amortised cost</b>		
Shareholder loan notes and accrued interest thereon	159,998	121,762
Bank loans	24,274	24,274
Revolving credit facility	5,000	-
Amortised bank fees	(990)	(1,250)
<b>Total borrowings</b>	<b>188,282</b>	<b>144,786</b>
Amount falling due for settlement within 12 months	5,000	-
Amount falling due for settlement after 12 months	183,282	144,786
	<b>188,282</b>	<b>144,786</b>

There are no borrowings in the Company (2017: £nil).

The other principal features of the Group's borrowings are as follows.

- (i) Bank overdrafts are repayable on demand.
- (ii) The Group has a revolving credit facility available of £6.5m (2017: £6.5m), of which £5.0m was utilised at the balance sheet date (2017: £nil).
- (iii) The Group has two principal loans:
  - (a) a bank loan of £24.3m (2017: £24.3m). The loan was taken out on 1 August 2013. The loan has three tranches that carry interest rates at 4.50-6.00% above the 3 month LJBOR. The loan was repaid in full after the period end (note 32). Some of the Company's subsidiaries are part of a cross guarantee with other members of the Group. The total Group borrowings covered by this guarantee at the period end was £24.3m (2017: £24.3m).
  - (b) Fixed rate unsecured shareholder loan notes of £137.0m (2017: £121.8m). The notes were issued on 31 March 2010 and are listed on the Channel Island Securities Exchange Authority Limited. Interest on the notes accrues at 12.5% per annum during the year. The principal element of the notes falls due for repayment on 31 March 2109. Interest which accrues, and is rolled up, on the shareholder loan notes is added to the principal loan balance outstanding, and falls due for repayment on 31 March 2109.
  - (c) Fixed rate unsecured shareholder loan notes of £23.0m (2017: £nil). The notes were issued during the period and are listed on the Channel Island Securities Exchange Authority Limited. Interest on the notes accrues at 12.5% per annum during the year. The principal element of the notes falls due for repayment on 31 December 2027. Interest which accrues, and is rolled up, on the shareholder loan notes is added to the principal loan balance outstanding, and falls due for repayment on 31 December 2027.

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**23. Borrowings (continued)**

The weighted average interest rates paid during the period were as follows:

	2018 %	2017 %
Bank overdrafts	1.3	2.7
Loans from related parties	11.7	11.8
Bank loans	6.0	6.3

**24. Provisions**

	Restructuring Provision £000	Onerous lease provision £000
At 26 March 2017 (restated)	-	857
Arising during the period	355	1,630
Utilised during the period	-	(456)
Released during the period	-	(125)
Impact of discounting	-	34
<b>At 25 March 2018</b>	<b>355</b>	<b>1,940</b>

	2018 £000	As restated 2017 £000
Current	1,701	710
Non-current	594	147
	<b>2,295</b>	<b>857</b>

The provision above relates to onerous lease contracts and restructuring of the Group. The onerous lease provision represents the present value of future lease payments that the Group is presently obliged to make under non-cancellable onerous operating lease contracts. The estimate may vary as a result of changes in the utilisation of the leased premises. The provision will be utilised over the remaining lease term on the properties identified which range between one and four years. The restructuring provision relates to head office and store restructuring costs.

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**25. Deferred revenue**

	2018 £000	As restated 2017 £000
Arising from customer loyalty programme	9	6
Other deferred revenue	53	16
	<b>62</b>	<b>22</b>

**26. Share capital and reserves**

**Allotted, called up and fully paid share capital**

	2018 Number	2018 £000	2017 Number	As restated 2017 £000
Ordinary 'A' shares of £0.01 each	4,010,640	40	4,010,640	40
Ordinary 'B' shares of £0.01 each	842,628	8	842,628	8
Ordinary 'C' shares of £0.01 each	484,934	5	484,934	5
Ordinary 'D' shares of £0.01 each	77,080	1	77,080	1
Ordinary 'E' shares of £1.00 each	9,450	9	9,450	9
Deferred shares of £0.01 each	15,033	-	15,033	-
	<b>5,439,765</b>	<b>63</b>	<b>5,439,765</b>	<b>63</b>

All classes of shares rank *pari passu* in terms of rights to dividends and capital. Ordinary 'A' shares carry the ability to appoint up to two directors.

**Nature and purpose of reserves**

**Share Capital**

Share capital comprises the nominal value of the Company's Ordinary and Deferred shares.

**Share Premium**

The share premium reserve is the premium paid on the Company's A, B, C and D Ordinary shares.

**Hedging Reserve**

Gains and losses on certain derivative instruments are recognised in the hedging reserve (to the extent that the hedge is effective). Gains and losses are released to profit and loss at the same time as the hedged item impacts earnings.

**EBT Reserve**

On 2 March 2011, the Group established an employee benefit trust ("EBT"), Cath Kidston EBT Limited, for the purpose of facilitating the holding of shares in the Group for benefit of employees of the Group. From time to time the Group recommends that the Trust acquires shares from, or sells shares to, employees at fair market value as determined by the periodic revaluation of shares by a suitably qualified third party.

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**26. Share capital and reserves (continued)**

**Name and purpose of reserves (continued)**

*EBT reserve (continued)*

At 25 March 2018 the EBT held 315,141 ordinary 'B' shares and 50,960 ordinary 'D' shares (2017: 230,656 ordinary 'B' shares and 65,740 ordinary 'D' shares).

*Retained earnings*

Retained Earnings represent cumulative profits/losses net of dividends and other adjustments.

**27. Notes to the cash flow statement**

	<b>2018</b> <b>£000</b>	<b>As restated</b> <b>2017</b> <b>£000</b>
Loss for the period	(39,285)	(20,283)
Adjustments for:		
Income tax (credit)/charge	(3,048)	296
Finance costs	19,217	16,332
Investment income	(4)	-
Other gains and losses	3,518	3,501
Depreciation of property, plant and equipment	6,027	6,278
Impairment of property, plant and equipment	1,018	542
Amortisation of intangible assets	170	169
Loss/(gain) on disposal of property, plant and equipment	107	(115)
Increase/(Decrease) in provisions	1,438	(715)
<b>Operating cash flows before movements in working capital</b>	<b>(10,842)</b>	<b>6,005</b>
Increase in inventories	(4,112)	(4,820)
(Increase)/decrease in receivables	(706)	(2,300)
Increase in payables	874	4,067
<b>Cash generated by operations</b>	<b>(14,786)</b>	<b>2,952</b>
Income taxes paid	(130)	(161)
<b>Net cash from operating activities</b>	<b>(14,916)</b>	<b>2,791</b>

# **Cath Kidston Group Limited**

## **Notes to the consolidated financial statements**

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### **27. Notes to the cash flow statement (continued)**

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated balance sheet position as shown above.

### **28. Contingent liabilities**

The Group was in dispute over the acquisition of the Japan business at the period end, however this has since been settled and the provision in the financial statements has been adjusted to reflect the outcome of the settlement.

There are no contingent liabilities in the Company (2017: £nil).

### **29. Operating lease arrangements**

Lease payments under operating leases recognised as an expense during the period are £18.7m (2017: £18.6m).

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

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Within one year	15,975	16,026
In the second to fifth years inclusive	34,121	35,704
After five years	35,634	27,566
	<b>85,730</b>	<b>79,296</b>

Operating lease payments represent rentals payable by the Group for certain of its properties. Leases are negotiated for an average term of 5 years and rentals are fixed for an average of 2 years with an option to extend for a further 5 years at the then prevailing market rate.

### **30. Retirement benefit schemes**

#### **Defined contribution schemes**

The Group operates defined contribution retirement benefit schemes for all its qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. The pension cost charge represents contributions payable by the Group to the fund of £734,000 (2017: £465,000). The amount outstanding to the fund at the balance sheet date was £74,000 (2017: £66,000).

### **31. Financial Instruments**

#### **Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2017.

The capital structure of the Group consists of net debt (borrowings disclosed in note 23 after deducting cash and bank balances) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests as disclosed in note 26).

# **Cath Kidston Group Limited** **Notes to the consolidated financial statements**

For the 52 weeks ended 25 March 2018

## **31. Financial Instruments (continued)**

### **Categories of financial instruments**

	2018 £000	2017 £000
<b>Financial assets</b>		
Cash	7,061	5,678
Fair value through profit and loss (FVTPL)		
Held for trading	60	419
Loans and receivables	15,166	14,469
	2018 £000	2017 £000
<b>Financial liabilities</b>		
Fair value through profit and loss (FVTPL)		
Held for trading	3,161	299
Amortised cost	214,231	169,572

Foreign currency forward contracts and interest rate swaps are held at fair value, using discounted cash flow valuation models. For foreign currency forward contracts, future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. For interest rate swaps, future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract. Both are level 2 in the fair value hierarchy.

### **Market risk**

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- Foreign currency options and forward foreign exchange contracts to hedge the exchange rate risk arising on operating payments
- Interest rate swaps

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

### **Foreign currency risk management**

The Group has exposure to translation and transaction foreign exchange risk. The Group monitors its exposure and takes out forward and options contracts to fix future exchange rates.

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**31. Financial Instruments (continued)**

**Interest rate risk management**

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of forward and option interest rate contracts.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's credit risk is primarily attributable to its trade receivables. Credit risk is managed through regular review of aged receivables balances and limiting the level of credit given to customers according to payment history.

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

The carrying amount of financial assets are recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

**Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows.

At 25 March 2018, the Group has a revolving credit facility of £6.5m available (2017: £6.5m), of which £5.0m was utilised at period end (2017: £nil).

**32. Events after the balance sheet date**

On 11 June 2018 the Group completed a refinancing exercise raising £40.0m of funding from equity sources. £24.3m was used to repay all of the Group's external term bank debt and £4.0m has been injected as cash into the business. The remaining £11.7m has been credit committee approved and is available to be injected into the business as and when required both for liquidity purposes and to fund future growth initiatives.

The Group was in dispute over the acquisition of the Japan business at the year end, although this has been settled after the period end and the provision in the financial statements has been adjusted to reflect the outcome of the settlement.

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**35. Prior period adjustment (continued)**

<b>Consolidated balance sheet</b>	<b>26 March 2017 as previously stated £000</b>	<b>Correction of accounting treatment £000</b>	<b>As restated 26 March 2017 £000</b>
Non-current assets	101,313	805	102,118
Current assets	39,000	1,813	40,813
<b>Total assets</b>	<b>140,313</b>	<b>2,618</b>	<b>142,931</b>
Current liabilities	(26,135)	(281)	(26,416)
<b>Net current assets</b>	<b>12,865</b>	<b>1,532</b>	<b>14,397</b>
Non-current liabilities	(149,113)	(4)	(149,117)
<b>Net (liabilities)/assets</b>	<b>(34,935)</b>	<b>2,333</b>	<b>(32,602)</b>
Issued capital	63	-	63
Share premium	76	-	76
Capital redemption reserve	-	-	-
Hedging reserve	-	-	-
EBT reserve	(35)	-	(35)
Retained (deficit)/earnings	(58,830)	(1,091)	(59,921)
Currency translation reserve	-	2,424	2,424
<b>Equity Attributable to Owners of the Company</b>	<b>(58,726)</b>	<b>1,333</b>	<b>(57,393)</b>
Non Controlling Interest	23,791	1,000	24,791
<b>Equity</b>	<b>(34,935)</b>	<b>2,333</b>	<b>(32,602)</b>

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**35. Prior period adjustment (continued)**

As the correction of the error by retrospective restatement has a material impact on the Balance sheet at the beginning of the preceding period, an additional Balance sheet has been presented as at this date, being 28 March 2016.

The comparative figures in the primary statements and notes have been restated to reflect the correction of these prior period errors. Their impact on the consolidated income statement and consolidated balance sheets are detailed below:

<b>Consolidated balance sheet</b>	<b>28 March 2016 as previously stated £000</b>	<b>Correction of accounting treatment £000</b>	<b>As restated 28 March 2016 £000</b>
Non-current assets	101,583	1,096	102,679
Current assets	37,117	558	37,675
<b>Total assets</b>	<b>138,700</b>	<b>1,654</b>	<b>140,354</b>
Current liabilities	(46,994)	(189)	(47,183)
<b>Net current assets</b>	<b>(9,877)</b>	<b>369</b>	<b>(9,508)</b>
Non-current liabilities	(133,004)	(5)	(133,009)
<b>Net (liabilities)/assets</b>	<b>(41,298)</b>	<b>1,460</b>	<b>(39,838)</b>
Issued capital	63	-	63
Share premium	76	-	76
Capital redemption reserve	-	-	-
Hedging reserve	(128)	-	(128)
EBT reserve	-	-	-
Retained (deficit)/earnings	(41,309)	307	(41,002)
Currency translation reserve	-	1,153	1,153
<b>Equity Attributable to Owners of the Company</b>	<b>(41,298)</b>	<b>1,460</b>	<b>(39,838)</b>
Non Controlling Interest	-	-	-
<b>Equity</b>	<b>(41,298)</b>	<b>1,460</b>	<b>(39,838)</b>

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**35. Prior period adjustment (continued)**

<b>Consolidated balance sheet</b>	<b>26 March 2017 as previously stated £000</b>	<b>Correction of accounting treatment £000</b>	<b>As restated 26 March 2017 £000</b>
Non-current assets	101,313	805	102,118
Current assets	39,000	1,813	40,813
<b>Total assets</b>	<b>140,313</b>	<b>2,618</b>	<b>142,931</b>
Current liabilities	(26,135)	(281)	(26,416)
<b>Net current assets</b>	<b>12,865</b>	<b>1,532</b>	<b>14,397</b>
<b>Non-current liabilities</b>	<b>(149,113)</b>	<b>(4)</b>	<b>(149,117)</b>
<b>Net (liabilities)/assets</b>	<b>(34,935)</b>	<b>2,333</b>	<b>(32,602)</b>
Issued capital	63	-	63
Share premium	76	-	76
Capital redemption reserve	-	-	-
Hedging reserve	-	-	-
EBT reserve	(35)	-	(35)
Retained (deficit)/earnings	(58,830)	(1,091)	(59,921)
Currency translation reserve	-	2,424	2,424
<b>Equity Attributable to Owners of the Company</b>	<b>(58,726)</b>	<b>1,333</b>	<b>(57,393)</b>
Non Controlling Interest	23,791	1,000	24,791
<b>Equity</b>	<b>(34,935)</b>	<b>2,333</b>	<b>(32,602)</b>

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**35. Prior period adjustment (continued)**

<b>Consolidated income statement</b>	<b>2017 as previously stated £000</b>	<b>Correction of accounting treatment £000</b>	<b>As restated 2017 £000</b>
Revenue	129,156	(58)	129,098
Cost of sale	(43,928)	277	(43,651)
<b>Gross profit</b>	<b>85,228</b>	<b>219</b>	<b>85,447</b>
Other operating income	851	-	851
Distribution and administration Expenses	(85,259)	(1,193)	(86,452)
<b>Operating profit/(loss)</b>	<b>820</b>	<b>(974)</b>	<b>(154)</b>
Other gains and losses	(3,501)	-	(3,501)
Investment income	-	-	-
Finance costs	(16,343)	11	(16,332)
Profit/(loss) before tax	(19,024)	(963)	(19,987)
Tax	(283)	(13)	(296)
<b>Profit/(loss) for the period</b>	<b>(19,307)</b>	<b>(976)</b>	<b>(20,283)</b>
<b>Attributable to:</b>			
Owners of the Company	(18,021)	(1,398)	(19,419)
Non-controlling interests	(1,286)	422	(864)
	<b>(19,307)</b>	<b>(976)</b>	<b>(20,283)</b>

