

Registered number: 04169969

Stella McCartney Limited

**Annual report and financial statements
for the year ended 31 December 2018**



Stella McCartney Limited

Company information

Directors	S McCartney H Newman A Willis
Company secretary	CMS Cameron McKenna Nabarro Oslwang LLP
Registered number	04169969
Registered office	3 Olaf Street London W11 4BE
Independent Auditor	KPMG LLP Chartered Accountants 15 Canada Square London E14 5GL

Stella McCartney Limited

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Stella McCartney Limited

Strategic report for the year ended 31 December 2018

We are pleased to present this report on the Company's business strategy for the year ended 31 December 2018, together with an update of activity for the subsequent period to the date of the filing of the accounts. The objectives of this report are to provide users of these financial statements with:

- A balanced and comprehensive level of background context to the financial statements
- Analysis of the company's performance during the year
- Insight into the company's main objectives and strategies, the principal risks it faces and how it might affect future prospects.

The Company's objectives

The Company continues to seek sustainable, responsible and profitable business growth in order to deliver:

- Challenging and rewarding careers for the Company's employees
- Growth in shareholder value
- An outstanding retail experience for our customers

Strategy

In order to meet the above objectives, the Company's strategy is to:

- Consolidate our range of high-end and exclusive products, to support our luxury positioning and enhance the image of our stores and concession portfolio
- Expand the brand's worldwide retail portfolio by securing new store locations and concessions, particularly in Asia.
- Implement effective store staff training and development in order to retain our employees and deliver strong customer service.

Business review

The principal activities of the Company continues to be the development of the Stella McCartney brand through carefully selected partnerships, support and expansion of its global presence, and the operation of the UK retail business.

In 2018 the Company continued to operate directly managed stores in Fulham Road Brompton and Bicester Village, while the flagship store in Bruton Street, London, relocated to Old Bond Street in June 2018. The company has also continued in its partnerships with ISA S.p.A, Adidas, Kering Eyewear and Coty. On 28 March 2018 it was announced to press that Stella McCartney would purchase the remaining 50% of Stella McCartney Ltd's shares from the Kering Group. This transaction had not occurred as at 31 December 2018 and is not reflected within these statements.

However, the transaction has occurred on 15 July 2019, and during the financial year under review the Company has embarked in a reorganisation project ('Blue Sapphire'), in preparation of the abovementioned transaction. The majority of exceptional costs related to the 'Blue Sapphire' project, which are included in administrative expenses, were employee expenses (headcount increased by 22% year-on-year, needed to perform functions that were previously conducted by Kering Shared Services) and expenses related to establish the IT infrastructure needed by the resulting company re-organisation (software licences, IT consulting expenses).

Sales during the year reached £42,593,822 (2017: £42,523,701). The results for the year show a loss before tax of £10,887,295 (2017: profit of £9,087,655), driven by a substantial increase in administrative expenses.

Stella McCartney Limited

Strategic report (continued) for the year ended 31 December 2018

Key performance indicators ('KPI's')

The Directors monitor the progress on the strategy by reference to the following KPI's:

- Increase in sales 0.2% (2017: 2% increase);
- Increase in administrative expenses 67% (2017: 2% increase), driven significantly by the aforementioned 'Blue Sapphire' project and its associated costs, and an increase in store expenses, driven mostly by our new Old Bond Street store;
- Decrease in operating profit 219% (2017: 4% decrease)

The directors have assessed the KPI's above in consideration of those points included under their review of the business environment.

Corporate social responsibility

Social responsibility is at the heart of the business. We are committed to promoting labour standards and protecting human rights in all parts of the business. We annually report to Ethical Trade Initiative on our progress in promoting respect for worker's rights in our supply chain, and release a Modern Slavery statement each year. On an Environmental front, we measure and manage our environmental impact through our Environmental Profit & Loss tool, helping us make informed decisions about our product design, sourcing and manufacturing that reduce our impact on the planet. We continue to develop a wide range of supply chain projects that focus on bringing sustainability, traceability, and circularity into our supply chains - from farm through to finished product. We focus on sourcing sustainable and innovative materials that have a lower environmental impact such as organic cotton, recycled materials, and viscose from sustainably managed forests. We also work with Wildlife Works to ensure our carbon footprint is neutral.

Principal risks and uncertainties

As a fashion and lifestyle company every new season confronts the brand with the risk that the new collections may be received less positively than anticipated. Constant market observation and regular attendance of international fashion events ensure that trends are identified early on to serve as a basis for the collection development.

The Directors also recognise the risks associated with not adequately protecting the brand's trademarks. As such the Company invests strongly in securing and defending industrial property rights in various product categories and countries.

As of today there are still a number of uncertainties around the effects of the UK leaving the EU. The extent to which operations and financial performance will be affected in the longer term will only emerge over time. The Directors have reviewed the position of the company and deemed that Brexit will not have a significant impact on the business. Less than 5% of global revenue occurs through our UK stores depending on cross border movement of goods to the UK. Furthermore, the majority of foreign revenue recorded by Stella McCartney Limited relates to royalties, which benefit from UK international tax treaties that are unlikely to be affected by Brexit.

Charitable contributions

The company has been involved with a selection of organisations during 2018 including The Breast Cancer Research Foundation, mothers2mothers, the Battersea Cats & Dogs Home, The Royal Liverpool Hospital and the Hello Beautiful Foundation. Charitable contributions of £15,544 were made during the year (2017: £30,169).

The charitable donations made by the Company do not reflect Stella McCartney's personal charitable contributions.

Stella McCartney Limited

Strategic report (continued) for the year ended 31 December 2018

Post balance sheet event


On 15 July 2019, Stella McCartney and LVMH reached an agreement to further develop the Stella McCartney House. Ms McCartney will continue as creative director and ambassador of the brand, while holding majority ownership via the ultimate parent company, Anin Star Holding Limited. The goal of this partnership will be for the Stella McCartney House to accelerate its worldwide development in terms of business and strategy, while of course remaining faithful to its long-lasting commitment to sustainable and ethical luxury fashion.

Outlook

In 2019, our priority will be to continue operating seamlessly under the new ownership structure, strengthening our product offering and foster our retail operations.

We continue to work towards increasing our market share by selectively identifying new opportunities for store locations along with investing in our current store portfolio.

Strategic Report approved by the Board of Directors and signed on behalf of the Board on *24 February* 2020.



H. Newman
Director

Stella McCartney Limited

Directors' report for the year ended 31 December 2018

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

Results and dividends

The results for the year are set out in the profit and loss account on page 10.

The results for the year show a loss before tax of £10,887,295 (2017: profit of £9,087,655) and sales of £42,593,822 (2017: £42,523,701).

The loss for the year after taxation of £10,988,348 (2017: profit of £7,077,784) has been included in reserves.

A dividend payment was made in 2018 of £531,265 (2017: £675,539), £5,313 (2017: £6,755) per A share and £nil (2017: £nil) per B share.

The Directors have proposed a dividend of £657,887, £6,578.87 per A share relating to 2018. This has not been included within creditors as it was not approved before year end.

Directors

The directors of the Company during the year ended 31 December 2018 and up to the date of signing the Directors' Report were as follows:

S McCartney
H Newman
JF Palus (resigned 15 July 2019)
F Pinault (resigned 15 July 2019)
E Sandrin (resigned 15 July 2019)
A Willis

Stella McCartney and the Kering Group each owned 50% of the ordinary share capital of Stella McCartney Limited as at 31 December 2018.

The Directors of the Company benefited from qualifying third party indemnity provisions in place during 2018 and ongoing at the date of this report.

Disclosure of information to the auditor

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

Political contributions

The Company has not made any political contributions during the year (2017: £nil).

Stella McCartney Limited

Directors' report (continued) for the year ended 31 December 2018

Going concern

Notwithstanding net current liabilities of £5,002,867 as at 31 December 2018 and a loss for the year then ended of £10,988,348, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

The outstanding loan for £15,040,000 with Kering UK Ltd was fully repaid on July 15th 2019, and refinanced through the new immediate parent Company Anin Star Holding Limited following its acquisition of 100% of the issued share capital of Stella McCartney Limited.

At the date of these accounts, the Directors have carried out a detailed and comprehensive review of the business and its future prospects for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through support from its immediate parent Company, Anin Star Holding Limited, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Anin Star Holding Limited providing additional financial support during that period. The Directors of Anin Star Holding Limited have indicated their intention to continue to make available such funds as are needed by the Company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.


Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Independent auditor

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

Directors' report approved by the Board of Directors and signed for on behalf of the Board on

24 February, 2020.



H Newman
Director

Stella McCartney Limited

Statement of Directors' responsibilities in respect of the annual report and the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Stella McCartney Limited

Opinion

We have audited the financial statements of Stella McCartney Limited ("the company") for the year ended 31 December 2018 which comprise the profit and loss account, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Independent auditor's report to the members of Stella McCartney Limited (continued)

Other information

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Independent auditor's report to the members of Stella McCartney Limited (continued)

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

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



Andrew Bradshaw (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
Date: **27 February 2020**

Stella McCartney Limited

Profit and loss account for the year ended 31 December 2018

	Note	2018 £	2017 £
Turnover	3	42,593,822	42,523,701
Cost of sales		(4,772,228)	(4,455,680)
Gross profit		37,821,594	38,068,021
Administrative expenses		(48,637,996)	(29,045,386)
Other operating income		10,000	83,706
Operating (loss)/profit	6	(10,806,402)	9,106,341
Interest receivable and similar income	7	16,528	966
Interest payable and similar expenses	8	(97,421)	(19,652)
(Loss)/profit on ordinary activities before taxation		(10,887,295)	9,087,655
Tax on (loss)/profit on ordinary activities	9	(101,053)	(2,009,871)
(Loss)/profit for the financial year		(10,988,348)	7,077,784

All results relate to continuing operations in the current and preceding years.

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

The notes on pages 13 to 29 form part of these financial statements.


Stella McCartney Limited

Registered number:04169969

Balance sheet as at 31 December 2018

	Note	2018 £	2017 £
Fixed assets			
Intangible assets	10	3,148,326	2,338,482
Tangible assets	11	10,443,695	8,286,110
		<u>13,592,021</u>	<u>10,624,592</u>
Current assets			
Stocks	12	2,464,956	2,889,072
Debtors: amounts falling due after more than one year	13	-	663,233
Debtors	13	26,407,307	24,505,467
Cash at bank and in hand		3,329,013	1,660,409
		<u>32,201,276</u>	<u>29,718,181</u>
Creditors: Amounts falling due within one year	14	(37,204,143)	(20,234,006)
Net current (liabilities)/assets		<u>(5,002,867)</u>	<u>9,484,175</u>
Net assets		<u>8,589,154</u>	<u>20,108,767</u>
Capital and reserves			
Called up share capital	16	201	201
Retained earnings		8,588,953	20,108,566
		<u>8,589,154</u>	<u>20,108,767</u>

These financial statements were approved by the Board of Directors on 24 February, 2020.


H Newman
Director

The notes on pages 13 to 29 form part of these financial statements.

Stella McCartney Limited

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital £	Retained earnings £	Total equity £
At 1 January 2018	201	20,108,566	20,108,767
Loss for the financial year	-	(10,988,348)	(10,988,348)
Dividends paid on A shares	-	(531,265)	(531,265)
At 31 December 2018	201	8,588,953	8,589,154

Statement of changes in equity for the year ended 31 December 2017

	Called up share capital £	Retained earnings £	Total equity £
At 1 January 2017	201	13,706,321	13,706,522
Profit for the financial year	-	7,077,784	7,077,784
Dividends paid on A shares	-	(675,539)	(675,539)
At 31 December 2017	201	20,108,566	20,108,767

The notes on pages 13 to 29 form part of these financial statements.

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

1. Accounting policies

1.1 Basis of preparation

Stella McCartney Limited (the "Company") is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Kering S.A. who held 50% of the share capital of the Company as at 31 December 2018, have included the Company in its consolidated financial statements. The consolidated financial statements of Kering S.A. are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 40 rue de Sevres, Paris 75007, France.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital
- Disclosures in respect of capital management;
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Kering S.A. include the equivalent disclosures, the Company has also taken the exemptions under FRS101 available in respect to the following disclosures:

- Certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instrument Disclosures'.

The fair value of financial assets and financial liabilities approximate the book value.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements which are prepared on the historical cost basis.

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

1. Accounting policies (continued)

1.2 Changes in accounting policy and disclosures

Below are outlined new standards and amendments to standards and interpretations that became effective on 1 January 2018, which are relevant to the company.

Revenue recognition

IFRS 15 'Revenue from Contracts with Customers' was effective for accounting periods beginning on or after 1 January 2018. It provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the company expects to be entitled to receive. The core principle of the standard requires companies to re-evaluate when revenue is recorded on a transaction based upon newly defined criteria, either at a point in time or over time as goods or services are delivered. The standard was endorsed by the EU on 22 September 2016. The changes do not have a material impact.

Financial instruments

IFRS 9 'Financial Instruments' introduced a new classification approach for financial assets and liabilities. The classification of financial assets will be reduced from four to three and financial liabilities will be measured at amortised cost or fair value through profit and loss. The standard also prescribes an 'expected credit loss' model for determining the basis of providing for bad debts. The changes do not have a material impact.

Below are outlined new standards and amendments to standards and interpretations that are effective from 1 January 2019, which are relevant to the company.

Leases

IFRS 16 'Leases' is effective for accounting periods beginning on or after 1 January 2019 and will replace IAS 17 'Leases'. It will eliminate the classification of leases as either operating leases or finance leases and, instead, introduce a single lessee accounting model. The standard was endorsed by the EU on 31 October 2017. The adoption of IFRS 16 will result in the company recognising lease liabilities, and corresponding 'right to use' assets, for agreements that are currently classified as operating leases. The company has evaluated the effect and expects to recognise right of use assets and corresponding liabilities at 1 January 2019 between a range of £29 million to £31 million. See note 17 for further details on operating leases currently held.

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

1. Accounting policies (continued)

1.3 Going concern

Notwithstanding net current liabilities of £5,002,867 as at 31 December 2018 and a loss for the year then ended of £10,988,348, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

The outstanding loan for £15,040,000 with Kering UK Ltd was fully repaid on July 15th 2019, and refinanced through the new immediate parent Company Anin Star Holding Limited following its acquisition of 100% of the issued share capital of Stella McCartney Limited.

At the date of these accounts, the Directors have carried out a detailed and comprehensive review of the business and its future prospects for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through support from its immediate parent Company, Anin Star Holding Limited, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Anin Star Holding Limited providing additional financial support during that period. The Directors of Anin Star Holding Limited have indicated their intention to continue to make available such funds as are needed by the Company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

1.4 Interest receivable/payable

Interest earned on deposits is credited to the profit and loss account on an accruals basis. Interest arising on borrowings is charged to the profit and loss account on an accruals basis.

1.5 Financial instruments

The Company has no derivatives and does not trade in financial instruments.

The Company operates within the United Kingdom and the majority of transactions are denominated in Sterling. Foreign currency transactions are monitored by the directors to ensure that currency risks are kept at acceptable levels.

The Company funds operations through agreements with other group companies.

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

1.6 Trade and other debtors

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

1.7 Trade and other creditors

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

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

1. Accounting policies (continued)

1.8 Interest-bearing borrowings

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

1.9 Revenue recognition

Revenue comprises sales of goods, together with income from associated services (typically alterations and/or delivery fees), and income from royalties.

Sales of Goods and associated services

Sales of goods are recognised when the Company satisfies its performance obligation to its customers, typically upon delivery.

Sales of goods are measured:

- At the fair value of the consideration received;
- Excluding value added tax;
- Net of any rebates or discounts;
- Net of any returned goods;

Revenue from services directly related to the sale of goods is recognised in the period in which such services are rendered.

Income from royalties

Income from royalties is recognised in accordance with the contractual obligations specific to each agreement, over time as the performance obligation is satisfied, for example, when calculated based on the value of the underlying sales generated by the licensee under the agreement.

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

1. Accounting policies (continued)

1.10 Foreign Currency

Transactions in foreign currency are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are converted to the functional currency at the exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.11 Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.12 Defined contribution plans

The Company contributes to employees' personal pension under a defined contribution scheme. Contributions are charged to the profit and loss account in respect of the accounting period.

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.13 Intangible fixed assets

Trademarks and Website costs are capitalised and amortised over their useful economic lives. The Directors estimate these to be between three and twenty years. Website costs relate to ecommerce development costs which are amortised over three years from when the asset comes into use.

1.14 Tangible fixed assets

Fixed assets are stated at cost less depreciation and, when appropriate, provision for impairment. Depreciation is provided on cost in equal annual installments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Leasehold improvements	7% to 33% per annum, or over the life of the lease
Fixtures and fittings	20% to 33% per annum
Computer equipment	20% to 25% per annum

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

1. Accounting policies (continued)

1.15 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and, where necessary, provision is made for obsolete, slow moving, and defective stocks based on the Director's knowledge of customer demands and the stock aging profile. Sales in the fashion industry are volatile with increasing changes in customer demands and trends and therefore the Directors have used their best estimation in relation to stock valuation.

1.16 Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

1.17 Long term incentive plans

Certain executives of the Company are offered an annual bonus grant which is based on the achievement of financial targets by its parent Company, Kering Holland NV, over the course of three year time frame.

The obligation of the Company over the term of this plan is estimated and its costs are spread over the length of the plan (3 years).

1.18 Dividends

Dividends are paid on ordinary shares presented within equity. Dividends are only recognised as a liability to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2. Critical accounting estimates and judgements

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

3. Turnover

	2018 £	2017 £
Trading activities with third parties	9,364,770	9,680,897
Trading activities with group undertakings	293,173	293,093
Royalties from third parties	9,552,663	8,734,328
Royalties from group undertakings	23,383,216	23,815,383
	<u>42,593,822</u>	<u>42,523,701</u>

	2018 £	2017 £
Trading activities in the UK	9,364,770	9,680,897
Trading activities within the rest of the world	33,229,052	32,842,804
	<u>42,593,822</u>	<u>42,523,701</u>

4. Information regarding directors and employees

Staff costs during the year:

	2018 £	2017 £
Wages and salaries	16,565,364	13,184,890
Social security costs	2,562,305	1,627,734
Long term incentive plan	3,832,933	549,778
Contributions to defined contribution plans	452,956	355,905
	<u>23,413,558</u>	<u>15,718,307</u>

The average monthly number of employees, including the executive directors, during the year was as follows:

	2018 No.	2017 No.
Design	54	47
Selling and administration	151	121
	<u>205</u>	<u>168</u>

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

5. Directors' emoluments and highest paid director

The Director's emoluments were as follows:

	2018 £	2017 £
Aggregate emoluments	1,766,953	2,390,870
Amounts received under long term incentive schemes	1,249,206	865,802
Company pension contributions to defined contribution schemes	57,997	57,997
	<u>3,074,156</u>	<u>3,314,669</u>

Only one Director received remuneration from the Company. The other Directors are either employed by other group companies so any remuneration given is borne by those group companies, or the services they provide are minimal and amounts in relation to these services cannot realistically be attributed. For Directors employed by other group companies, no remuneration is given in respect of acting as a director of this entity as it is incidental to their overall responsibilities to the group.

6. Operating (loss)/profit

The operating (loss)/profit is stated after charging/(crediting):

	2018 £	2017 £
Depreciation on tangible assets (note 11)	1,771,828	1,541,792
Amortisation of intangible assets (note 10)	717,721	725,771
Rental income from properties	(10,000)	(83,706)
Operating lease costs	3,784,475	3,129,215
Losses on foreign exchange transactions	111,549	38,424
Auditor's remuneration; audit fees	38,020	37,800
	<u>3,702,593</u>	<u>5,360,296</u>

7. Interest receivable and similar income

	2018 £	2017 £
Bank interest receivable	16,528	685
Other interest receivable	-	281
	<u>16,528</u>	<u>966</u>

8. Interest payable and similar expenses

	2018 £	2017 £
Interest payable to group companies	97,421	19,652
	<u>97,421</u>	<u>19,652</u>

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

9. Taxation

	2018 £	2017 £
Current tax		
UK corporation tax	-	1,672,973
(Over)/under provision in prior year corporation tax	(562,180)	85,844
Total current tax	(562,180)	1,758,817
Deferred tax		
Temporary differences on tangible fixed assets	174,933	(71,566)
Temporary differences on long term incentive plans	488,300	322,620
Total deferred tax	663,233	251,054
Total tax charge	101,053	2,009,871

Factors affecting tax charge for the current year

The tax assessed for the year is higher than (2017: higher than) the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £	2017 £
(Loss)/profit on ordinary activities before tax	(10,887,295)	9,087,655
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 : 19.25%)	(2,068,586)	1,749,373
Effects of:		
Non deductible expenses	537,566	79,128
(Over)/under provision in prior year corporation tax	(562,180)	85,844
Depreciation on non-qualifying assets	-	49,811
Reduction in tax rates on deferred tax balances	-	45,715
Tax losses not recognised	2,194,253	-
Total tax charge	101,053	2,009,871

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

9. Taxation (continued)

Factors affecting current and future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred tax is at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

10. Intangible assets

	Software £	Trademarks £	Website costs £	Total £
Cost				
At 1 January 2018 - restated	305,169	9,876,588	101,700	10,283,457
Additions	1,251,464	276,101	-	1,527,565
At 31 December 2018	1,556,633	10,152,689	101,700	11,811,022
Amortisation				
At 1 January 2018 - restated	178,619	7,698,556	67,800	7,944,975
Charge for the year	18,007	665,814	33,900	717,721
At 31 December 2018	196,626	8,364,370	101,700	8,662,696
Net book value				
At 31 December 2018	1,360,007	1,788,319	-	3,148,326
At 31 December 2017	126,550	2,178,032	33,900	2,338,482

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

11. Tangible assets

	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 January 2018 - restated	14,318,603	1,714,438	838,650	16,871,691
Additions	2,869,362	1,054,223	5,828	3,929,413
Disposals	(2,191,386)	(448,152)	-	(2,639,538)
At 31 December 2018	14,996,579	2,320,509	844,478	18,161,566
Depreciation				
At 1 January 2018 - restated	6,391,638	1,419,536	774,407	8,585,581
Charge for the year	1,443,693	298,588	29,547	1,771,828
On disposals	(2,191,386)	(448,152)	-	(2,639,538)
At 31 December 2018	5,643,945	1,269,972	803,954	7,717,871
Net book value				
At 31 December 2018	9,352,634	1,050,537	40,524	10,443,695
At 31 December 2017	7,926,965	294,902	64,243	8,286,110

12. Stocks

	2018 £	2017 £
Finished goods and goods for resale	2,464,956	2,889,072

Changes in finished goods and goods for resale recognised as cost of sales in the year amounted to £4,772,228 (2017: £4,455,680).

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

13. Debtors

	2018 £	2017 £
Due after more than one year		
Deferred tax asset	-	663,233
	<u>-</u>	<u>663,233</u>
	2018 £	2017 £
Due within one year		
Trade debtors	732,638	1,393,569
Amounts owed by group undertakings	22,339,380	20,827,056
Other debtors	1,889,135	1,217,637
Prepayments and accrued income	1,203,296	1,067,205
Tax recoverable	242,858	-
	<u>26,407,307</u>	<u>24,505,467</u>

14. Creditors: Amounts falling due within one year

	2018 £	2017 £
Trade creditors	847,166	792,600
Amounts owed to group undertakings	24,769,957	11,654,753
Other taxation and social security	484,124	439,882
Accruals and deferred income	11,102,896	5,991,090
Corporation tax	-	1,355,681
	<u>37,204,143</u>	<u>20,234,006</u>

Included among the amounts owed to group undertakings, there is an intercompany loan with Kering UK Services Ltd for £15,040,000. This is a monthly rolling credit facility, carrying an annual interest rate of 1.58% as at the year ended 31 December 2018.

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

15. Deferred taxation

	2018 £
At beginning of year	663,233
Charged to profit or loss account	(663,233)
At end of year	-

The recognised deferred tax asset is made up as follows:

	2018 £	2017 £
Tangible fixed assets	-	174,933
Long term incentive plans	-	488,300
	-	663,233

The unrecognised deferred tax asset is made up as follows:

	2018 £	2017 £
Tangible fixed assets	166,478	-
Tax losses carried forward	1,378,925	-
Long term incentive plans	648,850	-
	2,194,253	-

16. Called up share capital

	2018 £	2017 £
Authorised, called up, allotted and fully paid		
100 ordinary class A shares of £1 each	100	100
100 ordinary class B shares of £1 each	100	100
1 preference share of £1 each	1	1
	201	201

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

16. Called up share capital (continued)

The 'A' ordinary shares have no rights to dividends other than that recommended by the Directors. The shares carry 50% of the voting rights of the Company and have no preferential right to a return of capital on a winding up of the Company.

The 'B' ordinary shares have no rights to dividends other than that recommended by the Directors. The shares carry 50% of the voting rights of the Company and have no preferential right to a return of capital on a winding up of a Company.

The issued preference share has no rights to a dividend, is non-voting and has no right to receive notice of or attend any general meeting of the Company.

17. Commitments under operating leases

At 31 December 2018 the company had commitments under non-cancellable operating leases related to stores and office premises as follows:

	2018	2017
	£	£
Not later than 1 year	3,659,163	3,893,386
Later than 1 year and not later than 5 years	10,985,366	12,550,209
Later than 5 years	18,692,900	20,787,220
	<u>33,337,429</u>	<u>37,230,815</u>

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

18. Related party transactions

During the year an intercompany loan existed with Kering UK Services Ltd. The opening balance was £5,000,000 (2017: £4,000,000). Loans were provided of £13,040,000 (2017: £11,000,000) and repaid by £3,000,000 (2017: £10,000,000). The outstanding balance at the year end was £15,040,000 of capital (2017: £5,000,000) and £17,404 of interest (2017: £3,621). The interest charge in the year was £97,421 (2017: £19,952).

During the year payments were made to Stella McCartney of £3,605,421 (2017: £3,990,208) for Directors' emoluments and dividends.

During the year sales were made to Nina Projects Ltd of £nil (2017: £8,600) and purchases were made from Nina Beauty Ltd for £294,211 (2017: £39,195). Both companies are wholly owned by Stella McCartney. Purchases were made from The Canaletto Consultancy Ltd, a company owned by Helen Newman, of £383,200 (2017: £188,274).

During the year transactions were entered into and balances were outstanding at the year end in the ordinary course of business with the following fellow group undertakings that are not wholly owned subsidiaries:

	Sales & operating expense recharges to 31 December		Receivables outstanding 31 December	
	2018 £	2017 £	2018 £	2017 £
Autumnpaper Ltd	-	3,360	-	3,360
E_Lite S.P.A.	73,754	14,658	268	14,658
G.F. Services S.r.L.	1,323	-	1,323	-
Gucci Singapore PTE Ltd	13,563	-	-	-
Kering Eyewear S.p.A.	131,160	222,239	-	136,856
Kering Holland N.V.	-	7,198	-	-
Kering S.A.	11,287	156,375	19,822	109,438
Kering UK Services Ltd	-	937	-	-
Luxury Fashions Swiss S.A.	22,934,313	17,543,136	17,041,769	10,835,993
Luxury Goods International S.A.	1,771,062	336,849	-	-
Luxury Goods Outlet Europe S.a.g.l.	308,323	10,303	16,030	587
Stella McCartney (Shanghai) Trading Ltd	84,865	(24,032)	2,352	696,762
Stella McCartney America, Inc	33,811	130,071	4,408	28,964
Stella McCartney France S.A.S.	141,104	203,995	14,609	18,830
Stella McCartney Italia S.R.L.	226,014	212,903	63,584	23,619
Stella McCartney Japan Ltd	7,389	79,496	16,150	18,152
Stella McCartney Hong Kong Ltd	9,777	75,923	13,099	3,323
Stella McCartney Spain S.L.	103,763	82,676	7,652	7,064
	<u>25,851,508</u>	<u>19,056,087</u>	<u>17,201,066</u>	<u>11,897,606</u>

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

18. Related party transactions (continued)

	Purchases & operating expense recharges 31 December		Payables outstanding 31 December	
	2018 £	2017 £	2018 £	2017 £
Autumnpaper Ltd	-	2,116	-	-
E_Lite S.P.A.	50,553	4,010	-	5,304
G.F. Logistica S.r.L.	6,673	14,139	5	13,872
G.F. Services S.r.L.	1,729,183	1,764,041	22,178	558,191
Gucci Ltd	1,148	-	-	-
Gucci Singapore PTE Ltd	-	21,207	-	-
Kering Holland N.V.	(5,498)	5,498	-	5,498
Kering Eyewear S.p.A.	1,066	4,436	-	4,436
Kering Italia S.P.A.	139,205	121,107	70,697	121,107
Kering S.A.	2,340,307	2,509,274	526,147	2,198,104
Kering UK Services Ltd	1,086,087	1,090,124	339,979	329,531
Luxury Goods International S.A.	5,613,531	4,447,521	5,892,691	1,005,901
Luxury Goods Outlet Europe S.a.g.l.	466,859	247,975	33,301	35,666
Stella McCartney America, Inc	52,926	41,140	695	30,947
Stella McCartney France S.A.S.	2,237,082	1,892,072	2,101,312	1,805,846
Stella McCartney Italia S.R.L.	1,665,753	817,039	702,489	489,767
Stella McCartney Japan Ltd	17,788	308,356	547	32,898
Stella McCartney Spain S.L.	115,967	113,626	22,512	14,064
	<u>15,518,630</u>	<u>13,403,681</u>	<u>9,712,553</u>	<u>6,651,132</u>
	Royalties from 31 December		Receivables outstanding 31 December	
	2018 £	2017 £	2018 £	2017 £
Luxury Fashion Swiss S.A.	11,684,370	16,466,469	3,873,190	7,009,236
Luxury Goods Outlet Europe S.a.g.l.	833,634	993,298	422,391	406,698
Kering Eyewear S.p.A.	726,703	706,790	217,011	183,825
E_Lite S.P.A.	611,550	621,947	610,435	1,302,632
E_Lite US Inc	14,452	26,878	15,287	27,061
	<u>13,870,709</u>	<u>18,815,382</u>	<u>5,138,314</u>	<u>8,929,452</u>

Stella McCartney Limited

Notes to the financial statements for the year ended 31 December 2018

19. Ultimate holding company and holding company

Financiere Pinault SCA, a company incorporated in France, is the ultimate parent company.

Kering S.A., a company incorporated in France is the largest and smallest group to consolidate and publish these financial statements. Consolidated accounts including the results of the Company are available to the public from 40 rue de Sevres, 75007 Paris, France.

20. Post balance sheet event

On 15 July 2019, Stella McCartney and LVMH reached an agreement to further develop the Stella McCartney House. Ms McCartney will continue as creative director and ambassador of the brand, while holding majority ownership via the ultimate parent company, Anin Star Holding Limited. The goal of this partnership will be for the Stella McCartney House to accelerate its worldwide development in terms of business and strategy, while of course remaining faithful to its long-lasting commitment to sustainable and ethical luxury fashion.