Registered number: 03005257

Diesel (London) Limited

Report and financial statements

For the year ended 31 December 2016

Diesel (London) Limited

Company Information

Directors	A Bogliolo P Rosato J Hewlett
Company secretary	A Hargreaves
Registered number	03005257
Registered office	55 Argyle Street London WC1H 8EE
Independent auditors	Ernst & Young LLP 1 More London Place London SE1 2AF
Solicitors	Brecher 4th Floor 64th North Row London W1K 7DA

Diesel (London) Limited

Contents

Strategic report
For the year ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Principal activities and business review

The principal activity of the company during the year continued to be that of a clothing distributor and retailer.

The company's key financial performance indicators during the year were as follows:

	2016	2015	Variance
	£000	£000	%
Turnover	46,051	48,563	(5)
Operating loss	(2,944)	(776)	(279)
Loss after tax	(2,684)	(1,018)	(164)
Shareholders' funds	8,114	10,797	(25)
Current assets as percentage of current liabilities	130%	164%	(34)
Average number of employees	369	293	76

The trading conditions in the UK continue to be challenging consequently the Company recorded a reduction in turnover for the year of approximately £2.5 million. The wholesale business division registered a fall in sales of £3.8M, or 21.1%, mostly driven by brand repositioning. The retail business division showed an increase of £1.1M, or 5.1%, thanks to new store openings. The outlet business division registered an increase of £0.5M, or 6.0%, driven by new openings, relocations and refurbishments. The wholesale shortfall was foreseen in budget, on the other hand the retail and outlet performances have been lower than expectation, mostly due to delays in the new openings.

As a result of these challenges, the operating loss is £2.9 million.

The loss after tax is £2.7 million.

During 2016 no dividends have been paid to Shareholders.

During 2016, the Company maintained its strong record of controlling liquidity with continued improvements in day's sales outstanding and net current assets. Inventory was generally constant, but effective stock management continued with reduced levels of shrinkage in the retail business and reduced amount of remaindered stock sold.

All head office employees participate in the profit share scheme but this will not be paid this year due to the failure of the company to achieve its budgeted profit.

Average employee numbers for 2016 are 369, driven by the new openings in retail and outlet divisions.

In 2013, the company established a Branch in Ireland from which the company operates an outlet in Kildare. The Irish Branch is included within the Diesel (London) Limited results.

Principal risks and uncertainties

The directors and senior management formally review risks and opportunities at least quarterly. Regular commercial meetings are held with divisional heads to assess the trading position at that time and the likely full year result. Daily and weekly key performance indicators are published and reviewed by relevant staff to monitor trading and detailed, formal and comprehensive forecasting takes place on a regular basis.

The principal risks are related to the company's ability to distribute Diesel brands successfully in the UK and the Republic of Ireland, achieving profitable brand positioning and distribution via its wholesale and retail distribution channels in the context of a very competitive and dynamic retail industry. This can be achieved by maximising brand fit sales and through cost control.

The company anticipates no significant risk associated with interest or exchange rates volatility. The company has minimal exposure to price, credit, liquidity and cash flow risks because these are managed centrally by the Diesel group.

Foreign currency cash flows are broadly self-hedging and the company is forecast to retain net liquid funds for the foreseeable future. Insurance policies are retained to cover the eventuality of significant business interruption.

This report was approved and authorised for issue by the board on 9 March 2017 and were signed on its behalf on

J Hewlett
Director

Directors' report
For the year ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Results and dividends

The loss for the year, after taxation, amounted to £2,683,835 (2015 - loss £1,018,247).

Dividends of £nil were paid in the year (2015 - £2,000,000).

Directors

The directors who served during the year were:

A Bogliolo
P Rosato
J Onland (appointed 22 April 2016, resigned 30 September 2016)
J Hewlett (resigned 22 April 2016, appointed 1 October 2016)

Going concern

The directors of the Company have reviewed future trading performance expectations as outlined above. Sales are anticipated to stabilize or decline in line with the repositioning of the brand in the market place, however with historically consistent margins and a stable cost base. After reviewing all areas of the business for 2016 and budget for 2017 the directors of the company are satisfied that the financial statements have been prepared on a going concern basis. OTB SpA, the ultimate parent company of Diesel (London) Limited have pledged financial support to Diesel (London) Limited to assist in meeting liabilities as and when they fall due.

Future developments

Forecasts for 2017 and beyond have been prepared with the strategic objectives re-positioning the brand at a more premium level, which will involve reducing turnover from high-volume but poorer image accounts in the wholesale division.

The retail business is forecast to grow thanks to the recent new openings and relocations and by finding new avenues to improve the customer experience.

The wholesale business is forecast to remain stable in 2017 after three years of continuing decrease due to the strategic re-positioning. Attention remains focused on developing relationships with existing and new customers whilst minimising financial risk through ongoing review of the credit worthiness of customers and by revisiting terms and conditions of trade. Risk is mitigated wherever possible through credit insurance, retention of title clauses and the use of staged payments. The company maintains a diversified portfolio of wholesale customers in order to avoid over dependence on any sole customer.

Overheads remain a significant part of the costs of the company. Key elements within this are property rents and personnel costs. The use of space in the business is continually under review with the objective of maximising sales per square metre and minimising non sales related areas. Budgets and forecasts have been prepared taking into account the risk of increases in fixed costs. As described above, the company has developed various key measures of success and, wherever practicable, staff members are incentivised using these criteria. Contracts for the supply of other overhead costs are reviewed and negotiated on a regular basis.

Employee involvement

The company has continued its policy of providing employees with information about the company through the deployment of the employee communications group named Talk@Diesel.com in which employees are encouraged to present their suggestions and views on the company's performance and activities. Regular meetings are held at department level to allow a free flow of information, ideas and feedback. Company wide team strategy meetings are held quarterly to inform the employees of company performance. Employees participate directly in the success of the business through the company's profit share scheme.

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 9th March 2017 and signed on its behalf.

J Hewlett
Director

Directors' responsibilities statement
For the year ended 31 December 2016

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 judgments 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent Auditors' Report to the Members of Diesel (London) Limited

We have audited the financial statements of Diesel (London) Limited for the year ended 31 December 2016, which comprise the Income statement, the Statement of other comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework'.

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 Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' responsibilities statement on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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 year for which the financial statements are prepared is consistent with those financial statements and such reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and the Directors' report.

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

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

Ernst & Young LLP

Gordon Cullen (Senior statutory auditor)
for and on behalf of
Ernst & Young LLP
Statutory Auditor
London
Date: 15/3/17

Income statement
For the year ended 31 December 2016

	Note	2016 £	2015 £
Turnover	3	46,050,585	48,563,426
Cost of sales		(18,625,546)	(23,186,584)
Gross profit		27,425,039	25,376,842
Distribution costs		(17,119,509)	(14,421,588)
Administrative expenses		(13,249,562)	(11,730,963)
Operating loss		(2,944,032)	(775,709)
Interest receivable and similar income	8	4,975	21,888
Interest payable and similar charges	9	(36,507)	(112,429)
Loss on ordinary activities before taxation		(2,975,564)	(866,250)
Taxation on profit/(loss) on ordinary activities	10	291,729	(151,997)
Loss for the year		(2,683,835)	(1,018,247)

The notes on pages 12 to 26 form part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2016

	Note	2016 £	2015 £
Profit for the financial year		(2,683,835)	(1,018,247)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Other comprehensive income		-	-
Total comprehensive income for the year		(2,683,835)	(1,018,247)

Diesel (London) Limited
Registered number:03005257

Balance sheet
As at 31 December 2016

	Note	2016 £	2016 £	2015 £	2015 £
Fixed assets					
Tangible assets	12		6,213,167		4,163,354
Current assets					
Stocks	13	6,254,326		6,570,014	
Debtors: Amounts falling due after more than one year	14	291,178		399,123	
Debtors: Amounts falling due within one year	14	7,243,038		11,466,322	
Cash at bank and in hand	15	1,345,042		1,230,290	
		15,133,584		19,665,749	
Creditors: Amounts falling due within one year	16	(11,679,660)		(11,981,575)	
Net current assets			3,453,924		7,684,174
Total assets less current liabilities			9,667,091		11,847,528
Provisions for liabilities					
Other provisions	19	(1,553,401)		(1,050,003)	
			(1,553,401)		(1,050,003)
Net assets excluding pension asset			8,113,690		10,797,525
Net assets			8,113,690		10,797,525
Capital and reserves					
Called up share capital	20		700,000		700,000
Profit and loss account			7,413,690		10,097,525
			8,113,690		10,797,525

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

J Hewlett

Director

The notes on pages 12 to 26 form part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2016

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2016	700,000	10,097,525	10,797,525
Comprehensive income for the year			
Loss for the year	-	(2,683,835)	(2,683,835)
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	(2,683,835)	(2,683,835)
At 31 December 2016	700,000	7,413,690	8,113,690

Statement of changes in equity
For the year ended 31 December 2015

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2015	700,000	13,115,772	13,815,772
Comprehensive income for the year			
Loss for the year	-	(1,018,247)	(1,018,247)
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	(1,018,247)	(1,018,247)
Dividends: Equity capital	-	(2,000,000)	(2,000,000)
At 31 December 2015	700,000	10,097,525	10,797,525

The notes on pages 12 to 26 form part of these financial statements.

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements of Diesel (London) Limited for the year ended 31 December 2016 were authorised for issue by the board of directors on 9 March 2017 and the balance sheet was signed on the board's behalf by J Hewlett. Diesel (London) Limited is incorporated and domiciled in England.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006. The company's financial statements are presented in Sterling.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 2).

The following principal accounting policies have been applied:

1.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

1.3 Going concern

The directors of the Company have reviewed future trading performance expectations as outlined above. Sales are anticipated to stabilize or decline in line with the repositioning of the brand in the market place, however with historically consistent margins and a stable cost base. After reviewing all areas of the business for 2016 and budget for 2017 the directors of the company are satisfied that the financial statements have been prepared on a going concern basis. OTB SpA, the ultimate parent company of Diesel (London) Limited have pledged financial support to Diesel (London) Limited to assist in meeting liabilities as and when they fall due.

1. Accounting policies (continued)

1.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

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

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company 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 Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Short leasehold improvements	- 10% per annum
Motor vehicles	- 25% per annum
Fixtures & fittings - concessions	- 33% per annum
Fixtures & fittings - standalone stores	- 20% per annum
Computer and electrical equipment	- 20-33% per annum

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Income statement.

1.6 Operating leases: Lessee

Rentals paid under operating leases are charged to the profit or loss on a straight line basis over the period of the lease.

1. Accounting policies (continued)

1.7 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

1.8 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.9 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1. Accounting policies (continued)

1.10 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Income statement. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost.

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Balance sheet.

1.11 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measures at amortised cost using the effective interest method.

1. Accounting policies (continued)

1.12 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

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

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

1.13 Finance costs

Finance costs are charged to the Income statement over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.14 Pensions

Defined contribution pension plan

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

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

1.15 Interest income

Interest income is recognised in the Income statement using the effective interest method.

1. Accounting policies (continued)

1.16 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Income statement in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance sheet.

1.17 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Income statement, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Dilapidations

The dilapidations provision represents the directors' estimate of amounts potentially due in respect of dilapidations to leased properties occupied by the company. The provision is expected to be utilised in line with expiration of the applicable operating leases.

Onerous Leases

The provision for onerous contracts, relating to the Nottingham, Manchester, Kildare and Gunwharf stores, is recognised when the expected benefits to be derived by the Company from contracts are lower than the unavoidable costs of meeting its obligations under the contracts. This provision is discounted to present value.

3. Turnover

Turnover represents sales to customers stated net of VAT.

An analysis of turnover by class of business is as follows:

	2016	2015
	£	£
Sale of goods	46,050,585	48,563,426

The turnover and profit before taxation is attributable to the distribution and sale of clothing and fashion accessories within the United Kingdom and the Republic of Ireland in respect of continuing activities.

4. Operating loss

The operating profit is stated after charging:

	2016	2015
	£	£
Depreciation of tangible fixed assets	533,176	1,057,558
Defined contribution pension cost	153,825	216,846
	687,001	1,274,404
Operating lease payments		
- minimum lease payments	1,790,465	4,816,779

5. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2016 £	2015 £
Fees for the audit of the Company	30,000	32,000

The company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of the parent company.

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2016 £	2015 £
Wages and salaries	7,887,886	7,200,690
Social security costs	624,883	585,515
Cost of defined contribution scheme	153,825	216,846
	8,666,594	8,003,051

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

	2016 No.	2015 No.
Warehouse and sales	330	262
Administration	39	31
	369	293

7. Directors' remuneration

	2016	2015
	£	£
Directors' emoluments	61,193	150,965
Company contributions to defined contribution pension schemes	6,000	11,200
	67,193	162,165

During the year retirement benefits were accruing to 1 director (2015 -1) in respect of defined contribution pension schemes.

The totals also represents the remuneration and pension contributions to defined contribution schemes for highest paid director.

8. Interest receivable

	2016	2015
	£	£
Interest receivable from group companies	4,975	21,888

9. Interest payable and similar charges

	2016	2015
	£	£
Interest payable - other	36,507	112,429

10. Taxation

	2016 £	2015 £
Corporation tax		
Current tax on profits for the year	(206,955)	-
Adjustments in respect of previous periods	(200,864)	(8,912)
	(407,819)	(8,912)
Total current tax	(407,819)	(8,912)
Deferred tax		
Origination and reversal of timing differences	116,090	150,739
Adjustments in respect of prior years	-	10,170
Total deferred tax	116,090	160,909
Taxation on (loss)/profit on ordinary activities	(291,729)	151,997

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2015 - higher than) the standard rate of corporation tax in the UK of 20.00% (2015 - 20.25%). The differences are explained below:

	2016 £	2015 £
Loss on ordinary activities before tax	(2,975,564)	(866,250)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015 - 20.25%)	(595,113)	(175,416)
Effects of:		
Expenses not deductible for tax purposes	106,018	115,515
Adjustments to tax charge in respect of prior periods	(165,008)	(10,162)
Movement in unrecognised deferred assets	357,577	222,060
Rate change	4,797	-
Total tax charge for the year	(291,729)	151,997

10. Taxation (continued)

Factors that may affect future tax charges

The Finance (No.2) Act 2015 reduced the rate of Corporation Tax from 1 April 2017 to 19% and by a further 1% to 18% from 1 April 2020. In the 2016 Budget, it was announced that the rate of Corporation tax from 1 April 2020 will be reduced further to 17%, and this rate was substantively enacted in September 2016, prior to the balance sheet date. The deferred tax assets and liabilities reflect these rates.

11. Dividends

	2016 £	2015 £
Dividends paid	-	2,000,000

No dividends were declared or paid relating to 2016.

12. Tangible fixed assets

	Short leasehold improvements £	Motor vehicles £	Fixtures & fittings £	Computers and electrical equipment £	Total £
Cost or valuation					
At 1 January 2016	6,169,409	9,850	10,220,172	1,983,128	18,382,559
Additions	2,091,156	-	127,879	363,954	2,582,989
At 31 December 2016	8,260,565	9,850	10,348,051	2,347,082	20,965,548
Depreciation					
At 1 January 2016	3,864,162	9,850	8,709,097	1,636,096	14,219,205
Charge for period on owned assets	34,049	-	144,288	354,839	533,176
At 31 December 2016	3,898,211	9,850	8,853,385	1,990,935	14,752,381
Net book value					
At 31 December 2016	4,362,354	-	1,494,666	356,147	6,213,167
At 31 December 2015	2,305,247	-	1,511,075	347,032	4,163,354

13. Stocks

	2016 £	2015 £
Finished goods and goods for resale	6,254,326	6,570,014
	6,254,326	6,570,014

The amounts stated above are net of an inventory provision of £614,756 (2015: £951,030).

The difference between purchase price or production cost of stocks and their replacement cost is not material.

14. Debtors

	2016 £	2015 £
Due after more than one year		
Other debtors	291,178	399,123
	291,178	399,123

	2016 £	2015 £
Due within one year		
Trade debtors	4,333,770	4,066,131
Amounts owed by group undertakings	924,505	1,113,404
Amounts owed by Gold Rush SA	-	4,068,316
Other debtors	-	533,067
Prepayments and accrued income	1,984,763	1,569,314
Deferred taxation	-	116,090
	7,243,038	11,466,322

Gold Rush SA was the treasury company of OTB Group, providing banking and financial services to all group undertakings. Gold Rush SA has now been moved under OTB SpA who now provide these services.

15. Cash and cash equivalents

	2016 £	2015 £
Cash at bank and in hand	1,345,042	1,230,290
	1,345,042	1,230,290

16. Creditors: Amounts falling due within one year

	2016 £	2015 £
Trade creditors	2,546,629	2,563,163
Amounts owed to group undertakings	6,266,210	8,058,631
Amounts owed to Gold Rush SA	139,073	-
Taxation and social security	1,386,818	497,864
Other creditors	225,412	390,510
Accruals and deferred income	1,115,518	471,407
	11,679,660	11,981,575

17. Financial instruments

	2016 £	2015 £
Financial assets		
Financial assets that are debt instruments measured at amortised cost	5,549,453	10,180,041
Financial liabilities		
Financial liabilities measured at amortised cost	(10,292,842)	(11,483,711)

Financial assets measured at amortised cost comprise trade receivables repayable within 12 months of £4.3M; IC trade receivables repayable within 12 months of £0.9M and other debtors of £0.3M.

Financial liabilities measured at amortised cost comprise amounts owed by Gold Rush, the treasury company of OTB Group of £6.3M, trade payables repyable within 12 months of £2.6M, IC trade payables repyable within 12 months of £0.1M, accruals and deferred income of £1.1M and other creditors of £0.2M.

18. Deferred taxation

	2016 £	2015 £
At beginning of year	116,090	276,999
Charged to profit or loss	(324,145)	(160,909)
Utilised in year	208,055	-
At 31 December 2016	-	116,090

18. Deferred taxation (continued)

The deferred tax asset is made up as follows:

	2016	2015
	£	£
Depreciation in advance of capital allowances	-	162,347
Other timing differences	-	(46,257)
	-	116,090

The company has not recognised deferred tax assets of £374,565 in respect of trading losses of £2,203,325 and other timing differences of £113,685 in respect of qualifying capital allowances of £668,736 as there is insufficient certainty on future recoverability.

19 Provisions

	Dilapidation's	Onerous lease	Total
	£	£	£
At 1 January 2016	251,000	799,003	1,050,003
Charged/(utilised) to the profit or loss	(82,663)	586,061	503,398
At 31 December 2016	168,337	1,385,064	1,553,401

The dilapidations provision represents the directors' estimate of amounts potentially due in respect of dilapidations to leased properties occupied by the company. The provision is expected to be utilised in line with expiration of the applicable operating leases.

The provision for onerous contracts, relating to the Nottingham, Manchester, Kildare and Gunwharf stores, is recognised when the expected benefits to be derived by the Company from contracts are lower than the unavoidable costs of meeting its obligations under the contracts. This provision is discounted to present value.

20. Share capital

	2016	2015
	£	£
Shares classified as equity		
Authorised, allotted, called up and fully paid		
700,000 Ordinary shares of £1 each	700,000	700,000

21. Contingent liabilities

The company has created rent deposit deeds for £361,569 (2015 - £474,947) to secure all monies due to the landlord in respect of four of its stores (2015 – four).

22. Pension commitments

The company operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from the company.

23. Commitments under operating leases

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016	2015
	£	£
Not later than 1 year	5,804,413	5,452,628
Later than 1 year and not later than 5 years	20,160,353	18,379,692
Later than 5 years	15,273,035	12,720,481
Total	41,237,801	36,552,801

24. Related party transactions

During the year, rent of £770,000 (2015 - £606,000) was paid to RED CIRCLE SRL, a company related to the ultimate parent undertaking through a beneficial shareholder in respect of property occupied by the UK operations.

25. Controlling party

The company's immediate parent undertaking is Diesel SpA, a company incorporated in Italy.

OTB SpA is the ultimate parent undertaking and controlling party and is also the parent of the largest and smallest group of undertakings of which Diesel (London) Limited is a member and for which group financial statements are drawn up. Copies of these group financial statements are available from 36042 Breganze (VI) Italy – Via Dell'Industria, 2.