M and M Direct Limited

Annual report and financial statements

Registered number 05069228

For the year ended 29 July 2018
(Prior Year: 30 July 2017)

Contents

Strategic report

The principal activity of the Company is that of a retailer.

The Company is the UK's leading pure play online retailer of off-price branded fashion, lifestyle, and sports apparel The product is sourced from globally recognised brands and sold at discounts of between 25% and 90% off full high street prices.

The Company's result for the year ended 29 July 2018 show an increase in revenue of 16.4% to £159.6million and a sustained operating profit for the accounting period of £8.9 million (2017: £8.9 million) with profit after tax increasing by 7.4% to £7.1 million (2017: £6.6 million).

The directors prepare and monitor progress against a number of financial and operational key performance indicators These measures include average order value, customer return rates, channel and device mix, new and existing customer retention, conversion from enquiry to first order and working capital management.
The Company considers the retention of key employees to be an additional key performance indicator.

Key financial and other performance indicators that are comparable during the period were as follows:

	2018	2017	Change %
Gross profit %	39.5%	40.9%	(1.4%)
Average number of employees	609	573	6.3%

As an off-price retailer the Company does not use discount codes or other short term sales promotions.
Product pricing is continually monitored to optimise rate of sale and gross profit margin.
Gross profit was managed within the period resulting in a gross profit margin of 39.5%, a decrease of 1.4% points versus prior year, reflecting changes in product and category mix.

The average number of employees increased by 6.3% during the period and this was mainly due to operational staff being recruited to achieve efficient despatch of parcels in line with volume growth.

The Company is part of a Group Treasury process, operating a daily cash sweep. The Directors believe that the Group facilities are more than adequate to meet all Company requirements.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

The statement of financial position on page 10 of the financial statements shows the Company's position as at 29 July 2018.

Strategic report *(continued)*

Principal risks and uncertainties

The principal risks and uncertainties facing the Company relate to competitive pressures and securing stock from globally recognised brands at competitive prices.

The principal competitive risk relates to other retailers expanding their online presence and pursuing strategies more reliant on discounting and sales promotions. Product pricing is continually monitored by the Company to ensure prices remain competitive.

The Company's buyers maintain strong relationships with existing brands and constantly explore opportunities with emerging brands to ensure it can continue to source product at competitive prices.

To manage these risks and help sustain growth, the Company has a strategic roadmap with initiatives identified to deliver against the company goals.

Environment

The Company recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any adverse impact that might be caused by its activities.

On behalf of the board

DM Evans
Secretary & Director

Date: 15 January 2019

Directors' report

The directors present their annual report and the audited financial statements for the year ended 29 July 2018 (comparative period: year ended 30 July 2017).

Proposed dividend

The directors do not recommend payment of a dividend (2017: £Nil).

Directors and directors' interests

The directors who held office during the period and subsequently were as follows:

MA Tomkins (non-executive director)
D M Evans
A H Povlsen
S Hill
R Morris

Political and charitable contributions

The Company made no political contributions during the period (2017: £Nil).

Donations to UK charities amounted to £122,000 (2017: £116,000).

Employees

Details of the number of employees and related costs can be found in note 4 to the financial statements.

Applications for employment by disabled persons are considered fully, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged.
It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Company actively keeps employees informed on matters relevant to them as employees through appropriate means, such as communication of the business strategy, weekly communication bulletins, monthly business updates amd other updates as necessary.

Financial instruments

The Company's use of financial instruments and financial risk management practices are discussed in note 18 to the financial statements.

Directors' report *(continued)*

Disclosure of information to 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 them aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

On behalf of the board

DM Evans

DM Evans
Secretary & Director

Date: 15 January 2019

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M AND M DIRECT LIMITED

Opinion

We have audited the financial statements of M and M Direct Limited for the year ended 29 July 2018 which comprise the income statement, the statement of financial position, statement of cash flows, the statement of comprehensive income, the statement of changes in equity and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 29 July 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of 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 the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M AND M DIRECT LIMITED (Continued)

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

Eleri James (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date 16th January 2019

Income Statement
for the year ended 29 July 2018

	Note	Year ended 29 July 2018 £'000	Year ended 30 July 2017 £'000
Revenue	*2*	159,631	137,171
Cost of sales		(96,581)	(81,123)
Gross profit		63,050	56,048
Selling and distribution expenses		(25,639)	(23,427)
Administrative expenses		(28,562)	(23,770)
Operating profit	*3*	8,849	8,851
Finance income	*5*	11	816
Finance expenses	*5*	(25)	(905)
Net financing expense		(14)	(89)
Profit before income tax		8,835	8,762
Taxation	*6*	(1,704)	(2,122)
Profit for the financial period		7,131	6,640

All amounts are derived from continuing operations.

Statement of comprehensive income
for the year ended 29 July 2018

	Period ended 29 July 2018 £'000	Period ended 30 July 2017 £'000
Profit for the financial period	7,131	6,640
Total comprehensive income for the period	7,131	6,640

Statement of changes in equity
for the year ended 29 July 2018

	Share capital £'000	Share premium £'000	Capital contribution reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 30 July 2017	1	2,541	8,098	67,348	77,988
Group Restructure				(25,729)	(25,729)
Total comprehensive income for the period					
Profit	-	-	-	7,131	7,131
Balance at 29 July 2018	1	2,541	8,098	48,750	59,390

The directors of the group have restructured the business to ensure efficiency and transparancy of reporting, eliminating non-trading inter-group entities. As a result of this decision, the above statement shows the impact to retained earnings.
Note 20 details the transactions within the above.

Statement of financial position
at 29 July 2018

	Note	29 July 2018 £'000	30 July 2017 £'000
Non-current assets			
Intangible assets	7	21,235	20,006
Property, plant and equipment	8	2,558	2,432
Investment in subsidiaries	9	70	27,984
Deferred tax asset	14	154	118
Trade and other receivables	11	-	27,429
		24,017	77,969
Current assets			
Inventories	10	45,645	38,631
Trade and other receivables	11	2,199	2,580
Cash and cash equivalents	12	4,718	1,336
Total current assets		52,562	42,547
Total assets		76,579	120,516
Current liabilities			
Trade and other payables	13	(13,038)	(11,593)
Corporate tax payable		(862)	(1,210)
Inter-group loan	13	(3,219)	(41)
		(17,119)	(12,844)
Non-current liabilities			
Inter-group creditors	15	(70)	(29,684)
Total non-current liabilities		(70)	(29,684)
Total liabilities		(17,189)	(42,528)
Net assets		59,390	77,988
Equity attributable to equity holders of the parent			
Share capital	17	1	1
Share premium		2,541	2,541
Capital contribution		8,098	8,098
Retained earnings		48,750	67,348
Total equity		59,390	77,988

These financial statements were approved by the board of directors on 15 January 2019 and were signed on its behalf by:

D M Evans
Director

Company number: 05069228

Statement of cash flows

for the year ended 29 July 2018

	Note	Year ended 29 July 2018 £'000	Year ended 30 July 2017 £'000
Cash flows from operating activities			
Profit for the period		7,131	6,640
Adjustments for:			
Depreciation and amortisation		2,356	2,233
Finance income		(11)	(816)
Finance expense		25	905
Taxation		1,704	2,122
		11,205	11,084
Decrease in trade and other receivables		381	1,709
Increase in inventories		(7,014)	(9,179)
Increase in trade and other payables		4,623	1,561
Cash generated from operations		9,195	5,175
Tax paid		(2,088)	(2,960)
Net cash from operating activities		7,107	2,215
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangibles	7, 8	(3,711)	(2,125)
Net cash used in investing activities		(3,711)	(2,125)
Cash flows from financing activities			
Interest received		11	18
Interest paid		(25)	(43)
Loan to group companies		-	-
Proceeds from new loans		-	-
Net cash used in financing activities		(14)	(25)
Net increase in cash and cash equivalents		3,382	65
Cash and cash equivalents at 30 July 2017		1,336	1,271
Cash and cash equivalents at 29 July 2018	12	4,718	1,336

Notes
(forming part of the financial statements)

1 Accounting policies

M and M Direct Limited (the "Company") is a company incorporated and domiciled in the UK. The registered office is located at Clinton Road, Leominster, Herefordshire in England.

Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the European Union (EU).

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare Group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group. The financial statements are presented in sterling and all values are rounded to the nearest thousand (£000), except when otherwise indicated.

Going concern

The Directors have prepared these accounts under the going concern concept as the Directors have prepared an annual budget for the period to 28 July 2019 and a high level forecast for the following year which both indicate that the Company has sufficient committed working capital facilities to continue to trade.

Measurement convention

The financial statements are prepared on the historical cost basis.

Accounting estimates and judgements

The board are responsible for the development, selection and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates. In applying the accounting policies, appropriate estimates have been made in a number of areas and the actual outcome may differ from the position described in the Company's balance sheet at 29 July 2018. The key sources of estimation uncertainty at the balance sheet date that may give rise to material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

> *Intangible valuation and impairment*
>
> The outcome of the Company's annual impairment test for goodwill is dependent on the forecast cash flow of the cash generating unit together with key management assumptions including profit growth and discount rates.
>
> *Inventory valuation*
>
> Inventories are stated at the lower of cost and net realisable value. Cost is based on first-in first-out principle and includes expenditure incurred in acquiring the inventories.
>
> Provision is made for slow moving stock where appropriate in the light of recent usage, and for likely realisable values.

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, other than those involving estimations, that have had a significant effect on the amounts recognised in the financial statements.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Notes *(continued)*

1 Accounting policies *(continued)*

Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

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

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Non-derivative financial instruments

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

Trade and other receivables

Trade and other receivables 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.

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

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

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on software development activities is capitalised if the product or process is technically and commercially feasible and the Company intends, has the technical ability and has sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan and design of website and back office systems. The expenditure capitalised includes the cost of direct labour. Other development expenditure is recognised in the income statement as an expense incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Notes *(continued)*

1 Accounting policies *(continued)*

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balanc sheet date. Other intangible assets are amortised from the date they are available for use.
The estimated useful lives are as follows:

- brands - 5-10 years
- software - 3-5 years
- software development - 3 years

Impairment excluding inventories and deferred tax assets

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment; a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.
A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use are tested for impairment at each reporting date or whenever there are indications of impairment.

Calculation of recoverable amount

The recoverable amount of the Company's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Investment in subsidiaries

The Company accounts for its investment in subsidiaries at original cost less subsequent impairment losses.

Employee benefits

Defined contribution plans

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 income statement as incurred.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Notes *(continued)*

1 Accounting policies *(continued)*

Revenue

Revenue is recorded at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided to customers outside of the Company, stated net of returns and value added taxes. Sales of goods are recognised when goods are despatched and title has passed. A provision for return is accounted for based on the actual return that occurred the month following the balance sheet date.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Financing income and expenses

Financing income and expenses comprises interest on inter-company and external bank balances.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Foreign currency gains and losses are reported on a net basis.

Taxation

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

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

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. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

No new or revised IFRSs became effective for the accounting period commencing on 31 July 2017 which had a material impact on the financial statements for the period ending 29 July 2018.

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on or after 29 July 2018 and we consider may have a material impact on the financial statements:

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was published in July 2014. It is applicable to financial assets and financial liabilities, and covers the classification, measurement, impairment and de-recognition of financial assets and financial liabilities together with a new hedge accounting model.

The standard is effective for annual periods beginning on or after 1 January 2018.

The company has assessed the standard and will make any adjustments in the appropriate period following the effective date. The assessment has indicated that the impact will be immaterial.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 sets out the requirements for recognising revenue from contracts with customers. The standard requires entities to apportion revenue earned from contracts to the individual performance obligations on a relative standalone selling basis, based on a 5-step model to be applied to all contracts with customers. The standard was published in May 2014 and is effective for annual periods beginning on or after 1 January 2018.

The company has assessed the standard and will make any adjustments in the appropriate period following the effective date. The assessment has indicated that the impact will be immaterial.

IFRS 16 'Leases'

IFRS 16 'Leases' was published in January 2016. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The standard is effective for annual periods beginning on or after 1 January 2019.

The company has assessed the standard and will make any adjustments in the appropriate period following the effective date. The assessment has indicated that there will be a restatement required for the standard application in its presentation to the Statement of financial position.

The company is in the process of quantifying the impact of the new standard.

2 Revenue

The total revenue of the Company for the period has been derived from its principal activity, wholly serviced from the UK.

	Year ended 29 July 2018 £'000	Year ended 30 July 2017 £'000
Sale of goods and services	159,631	137,171

Notes *(continued)*

3 Expenses and auditor's remuneration

	Year ended 29 July 2018 £'000	Year ended 30 July 2017 £'000
Profit on ordinary activities is stated after charging / (crediting)		
Amortisation of intangible assets	1,521	1,400
Depreciation and other amounts written off tangible fixed assets (all owned)	835	833
Operating lease charges	1,713	1,710
Foreign currency losses/(profit)	70	(35)
Auditor's remuneration:		
Audit of these financial statements	41	33
Amounts receivable by the auditor and their associates in respect of:		
Other services relating to taxation	10	10
Other services	-	1

4 Staff numbers and costs

The average number of persons employed by the Company (including directors and temporary staff) during the period, analysed by category, was as follows:

	Number of employees	
	Year ended 29 July 2018	Year ended 30 July 2017
Management and administration	147	149
Despatch and sales	462	424
	609	573

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	12,168	11,066
Social security costs	760	607
Contributions to defined contribution plans	140	162
	13,068	11,835

	£'000	£'000
Directors' emoluments	740	922
Company contribution to money purchase pension schemes	14	10
	754	932

Notes *(continued)*

4 Staff numbers and costs *(continued)*

The aggregate of emoluments of the highest paid director was £235,796 *(2017: £299,690)* and Company pension contributions of £5,567 *(2017: £4,009)* were made to a money purchase scheme on their behalf.

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to four *(2017: five)*.

5 Finance income and expense

Recognised in the income statement

	Year ended 29 July 2018 £'000	Year ended 30 July 2017 £'000
Finance income		
Bank interest income	1	1
Interest on inter-group loans	10	815
Total finance income	11	816

	£'000	£'000
Finance expense		
Interest on inter-group loans	3	873
Interest on other loans	22	32
Total finance expense	25	905

6 Taxation

Recognised in the income statement

	Year ended 29 July 2018 £'000	Year ended 30 July 2017 £'000
Current tax expense		
Current period	1,739	1,781
Prior years	1	354
Current tax expense	1,740	2,135
Deferred tax expense		
Origination and reversal of temporary differences	(36)	(13)
Current period	(30)	(23)
Prior years	(6)	10
Deferred tax expense	(36)	(13)
	1,704	2,122

Notes *(continued)*

6 Taxation ***(continued)***

Reconciliation of effective tax rate

The current tax expense for the period is higher *(2017: higher)* than the standard rate of corporation tax in the UK of 19.00% *(2017: 19.67%)*. The differences are explained below:

	Year ended 29 July 2018 £'000	Year ended 30 July 2017 £'000
Profit before income tax	8,835	8,762
Current tax charge at 19.00% (2017: 19.67%)	1,679	1,723
Effect of:		
Adjustment in respect of prior years	(5)	364
Expenses not deductible for tax purposes	27	25
Effect of rate change	3	10
Total tax expense	1,704	2,122

Factors that may affect future charges

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted after the balance sheet date, therefore, the deferred tax asset at 29 July 2018 has been calculated based on the rates of 19% substantively enacted at the balance sheet date.

Notes *(continued)*

7 Intangible assets

	Software development (internally developed) £'000	Brand £'000	Goodwill £'000	Domain name £'000	Software £'000	Total £'000
Cost						
At 31 July 2017	5,880	1,269	17,546	75	7,106	31,876
Additions	1,112	-	-	-	1,638	2,750
At 29 July 2018	6,992	1,269	17,546	75	8,744	34,626
Amortisation and impairment						
At 31 July 2017	(4,580)	(1,029)	-	(75)	(6,186)	(11,870)
Amortisation charge	(855)	(88)	-	-	(578)	(1,521)
At 29 July 2018	(5,435)	(1,117)	-	(75)	(6,764)	(13,391)
Net book value						
At 31 July 2017	1,300	240	17,546	-	920	20,006
At 29 July 2018	1,557	152	17,546	-	1,980	21,235

Amortisation and impairment charge

The amortisation and impairment charge is recognised in the following line item in the income statement:

	29 July 2018 £'000	30 July 2017 £'000
Administrative expenses	1,521	1,400

Notes *(continued)*

7 Intangible assets *(continued)*

Impairment testing

Goodwill and indefinite life intangible assets considered significant in comparison to the Company's total carrying amount of such assets have been allocated to the Company's one cash generating unit:

The recoverable amount of goodwill has been calculated with reference to its value in use. The key features of this calculation are shown below:

	29 July 2018	30 July 2017
Period on which management approved forecasts are based	1 year	1 year
Growth rate applied beyond approved forecast period	10.0%	10.0%
Discount rate	10.0%	10.0%

The growth rate selected is consistent with the long-term average growth rate that management consider reasonable and in line with market expectations.

The recoverable amount of the cash generating unit was based on its value in use and was determined by discounting the future cash flows to be generated from the continuing use of the cash generating unit.

Value in use in 2018 calculation is consistent with 2017. The carrying amount of the cash generating unit was determined to be lower than its recoverable amount, thus no impairment loss has been recognised in the period *(2017: £Nil).*

The discount rate applied is a pre-tax market participant rate.

Sensitivity analysis

The Company's estimates of impairments are most sensitive to increases in the discount rate used and the forecast growth rates in perpetuity. Sensitivity analysis has been carried out by reference to both of these assumptions and neither a 150 basis point increase in the discount rate nor a 200 basis point reduction in the growth rate would result in an impairment being required.

Other than as disclosed above, it is not considered that a reasonably possible change in any of the key assumptions would generate a different impairment test outcome to the one detailed above.

Notes *(continued)*

8 Property, plant and equipment

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 31 July 2017	4,036	1,997	4,053	314	10,400
Additions	596	24	341		961
At 29 July 2018	4,632	2,021	4,394	314	11,361
Amortisation and impairment					
At 31 July 2017	(2,897)	(1,366)	(3,478)	(227)	(7,968)
Depreciation charge	(315)	(154)	(331)	(35)	(835)
At 29 July 2018	(3,212)	(1,520)	(3,809)	(262)	(8,803)
Net book value					
At 31 July 2017	1,139	631	575	87	2,432
At 29 July 2018	1,420	501	585	52	2,558

Impairment loss and subsequent impairment

There have been no impairment losses recognised during the current period (2017: £*Nil*).

Leased plant and machinery

There were no leased fixed assets during either the current or preceding period.

9 Investments in subsidiaries

	29 July 2018 £'000	30 July 2017 £'000
Shaes in subsidiary undertakings	70	27,984

The fixed asset investment relates to the following entity:

	Class of shares held	**Proportion of nominal value represented %**	**Proportion of voting rights held %**	**Nature of business**
M and M Direct Limited (Eire)	Ordinary	100	100	Trading

M and M Direct Limited (Eire) is incorporated in Ireland at 7 St Georges Quay, Cork, Ireland under company number 533481.

The profit of M and M Direct Limited (Eire) for the period ended 29 July 2018 was £nil and its net assets were £70,427.

The Company disposed of its undertakings in M and M Sports Limited with an intercompany agreement to write off any assets and liabilities as detailed in Note 20 Related party transactions.

Notes *(continued)*

10 Inventories

	29 July 2018 £'000	30 July 2017 £'000
Finished goods and goods for resale	47,246	39,556
Provision	(1,601)	(925)
Inventories	45,645	38,631

Included within inventories is £Nil (2017: *£Nil*) expected to be recovered in more than 12 months.

The amount of inventory expensed in the period was £96,581,000 (2017: *£81,122,000)*.

11 Trade and other receivables

	29 July 2018 £'000	30 July 2017 £'000
Current		
Inter-group receivables	464	1,096
Prepayments and other receivables	1,717	1,401
Trade receivables	18	83
Current trade and other receivables	2,199	2,580
Non-current		
Inter-group receivables	-	27,429
Non-current trade and other receivables	-	27,429

The directors of the group have taken the decision to restructure the group which results in a decrease of inter-group receivables. Details of the transactions can be seen in Note 20.

12 Cash and cash equivalents

	29 July 2018 £'000	30 July 2017 £'000
Cash and cash equivalents	4,718	1,336

13 Trade and other payables

	29 July 2018 £'000	30 July 2017 £'000
Current		
Trade payables	7,555	5,977
Inter-group payables (note 21)	3,219	550
Other taxes and social security	1,325	866
Other creditors	2,106	2,023
Accruals	2,052	2,218
Trade and other payables	16,257	11,634

The Company has the option of an inter-company loan facility up to the value of £12.5m that can be utilised at any time. The balance at 29 July 2018 was £2,668,000 (2017: £41,000).

Notes *(continued)*

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Opening balance at 31 July 2016 £'000	Credit to profit and loss £'000	Rate change £'000	Revised opening at 30 July 2017 £'000	Credit to profit and loss £'000	Rate change £'000	**Balance at 29 July 2018 £'000**
Property, plant and equipment	(105)	(23)	10	(118)	(39)	3	(154)
Deferred tax liability/ (asset)	(105)	(23)	10	(118)	(39)	3	(154)

There are no unrecognised deferred tax balances.

15 Non-current liabilities

	29 July 2018 £'000	**30 July 2017 £'000**
Inter-group creditors	70	29,684

The directors of the group have taken the decision to restructure the group which results in a decrease of inter-group receivables. Details of the transactions can be seen in Note 20.

16 Employee benefits

Defined contribution plans

The group operates a number of defined contribution pension plans.

The total expense relating to these plans in the current period was £140,000 *(2017: £162,000).*

17 Share capital

	29 July 2018 £	**30 July 2017 £**
Allotted, called up and fully paid:		
103,199 "A" shares of £0.01	1032	1032
1,678 "B" shares of £0.01	17	17
	1,049	1,049

All issued shares rank pari passu (as if they were one class of shares) in relation to payment of dividends.

Each class of share carries one vote per share.

Share classes have been corrected in the presentation above which resulted from a transaction ommitted in error from the financial statements in FY 2014/15.

Notes *(continued)*

18 Financial instruments

(a) Fair values of financial instruments

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principle and interest cash flows, discounted at the market rate of interest at the balance sheet date.

Fair values

The fair values for each class of financial assets and liabilities together with their carrying amounts shown in the balance sheet are as follows:

	2018 Carrying amount £'000	Fair value £'000	Carrying amount £'000	2017 Fair value £'000
Cash and cash equivalents (note 12)	4,718	4,718	1,336	1,336
Trade and other receivables	18	18	83	83
Inter-group receivables	464	464	28,525	28,525
Total loans and receivables	482	482	28,608	28,608
Total financial assets	5,200	5,200	29,944	29,944
Trade payables (note 13)	(7,555)	(7,555)	(5,977)	(5,977)
Other creditors and accruals (note 13)	(4,158)	(4,158)	(4,242)	(4,242)
Inter-group payables (note 21)	(3,219)	(3,219)	(30,234)	(30,234)
Total financial liabilities measured at amortised cost	(14,932)	(14,932)	(40,453)	(40,453)
Total financial liabilities	(14,932)	(14,932)	(40,453)	(40,453)
Total financial instruments	(9,733)	(9,733)	(10,509)	(10,509)

Notes *(continued)*

18 Financial instruments ***(continued)***

(b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from the Company's receivables from customers and investment securities.

Credit risk is not considered to be a material risk to the Company as the customers are required to pay up front before goods and services are despatched.

In certain limited circumstances trade receivables are held but these are only with entities that the Company has a long standing relationship with and all balances are received within 45 days of invoice.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £482,000 *(2017: £28,569,000)* being the total of the carrying amount of financial assets of(excluding cash and cash equivalents), shown in the table above. All amounts are current.

The maximum exposure to credit risk for trade receivables at the balance sheet date arises solely from intercompany receivables relating to M and M Direct Limited (Ireland).

Due to the nature of the business the ageing profile and provision against trade receivables is not deemed material to these financial statements.

(c) Liquidity risk

Financial risk management

Liquidity risk is risk that the Company will not be able to meet its financial obligations as they fall due.

The Company is part of the Bestseller Group and Group Treasury process with immediate access to an Inter Group Revolving Credit Facility of £12.5m. The Company prepares regular cash flow and working capital forecasts and monitors performance against them, ensuring no issues arise. As such liquidity risk is not deemed to be material these financial statements.

Notes *(continued)*

18 Financial instruments *(continued)*

(c) Liquidity risk (continued)

Liquidity risk

The following are the undiscounted contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2018						2017					
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Trade and other payables	7,555	7,555	7,555	-	-	-	5,977	5,977	5,977	-	-	-
Other creditors and accruals	4,158	4,158	4,158	-	-	-	4,242	4,242	4,242	-	-	-
Inter-group payables	3,219	3,219	3,219	-	-	-	30,234	30,234	550	29,684	-	-

(d) Cash flow hedges

Cash flow hedges

The Company does not hold any cash flow hedging instruments in either period.

Notes (continued)

18 Financial instruments (continued)

(f) Capital management

For the purpose of the Company's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company's capital management is to maximise the shareholder value.

It is the Company's policy to keep a strong capital base so as to maintain investor, creditor and market confidence and to sustain the development of the business.

In respect of cash and borrowings, the board monitors capital using the ratio of an adjusted net debt to equity. For this purpose, adjusted net debt is defined as total liabilities less cash and cash equivalents. However, no minimum or maximum ratios are set. The ratio for adjusted net debt to equity is 4.76 (2017: 1.9). The increase is predominately due to the Group restructure shown in note 21.

These capital management policies have remained unchanged from the prior year.

19 Operating leases

The Company has entered into operating leases on certain warehouse and office premises under operating leases. The lease terms are between four and fifteen years. The Company has the option, under most of its leases, to lease the assets for additional terms of three and five years. The rent paid to the landlord is adjusted to market rentals at regular intervals, and the Company does not have interest in the residual value of the land and buildings. As a result, it is determined that all of the risks and rewards of the land and buildings are with the landlord.

Non-cancellable operating lease rentals relating to land and buildings are payable as follows:

	2018 £'000	2017 £'000
Less than one year	1,674	1,503
Between one and five years	4,938	4,343
More than five years	-	904
	6,612	6,750

The Company does not hold any other operating leases.

During the period £1,713,000 was recognised as an expense in the income statement in respect of operating leases *(2017: £1,710,000).*

Notes *(continued)*

20 Related party transactions

Transactions with key management personnel

The key management personnel of the Company comprise the executive and non-executive directors. The detail of the total remunerations and pension contributions are disclosed in note 4.

During the period, key management personnel of the Company purchased goods totalling £2,000 *(2017: £3,000)* from the Company. All transactions were at arm's length.

There were no other material transactions between the Company and its key management personnel during the period.

Other related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

	Relationship	Sales to, income received from or expenses incurred on behalf of 2018 £'000	2017 £'000	Purchases made or expenses incurred from 2018 £'000	2017 £'000
Rapid Fundings Limited	Previous - Holding Company	-	496	-	-
Rapid Acquisitions Limited	Previous - Immediate Parent	-	303	-	-
M and M Sports Limited	Previous - Subsidiary		-	-	863
Bestseller	Fellow Subsidiary		17	-	10
Bestseller Wholesale UK Limited	Fellow Subsidiary		-	6,300	4,868
United Broker A/S	Fellow Subsidiary			109	
Vila Clothes Limited (UK)	Fellow Subsidiary		-		36
		-	816	6,409	5,777

		Receivables outstanding 2018 £'000	2017 £'000	Payables outstanding 2018 £'000	2017 £'000
Rapid Fundings Limited	Previous - Holding Company	-	17,071	-	-
Rapid Acquisitions Limited	Previous - Immediate Parent	-	10,399	-	-
M and M Sports Limited	Previous - Subsidiary	-	-	-	29,615
M and M Direct Limited (Eire)	Subsidiary	464	1,055	70	70
Bestseller	Fellow Subsidiary	-	-	3,219	41
Bestseller Wholesale UK Limited	Fellow Subsidiary	-	-	-	508
Vila Clothes Limited (UK)	Fellow Subsidiary	-	-	-	-
		464	28,525	3,289	30,234

Group Restructure

The directors of the group have restructured the business to ensure efficiency and transparancy of reporting, eliminating non-trading intercompany entities. As a result of this decision, the following shows the balances within the company that have been written off following agreement with the other intercompany parties.

The ultimate impact to the financial statements is to the retained earnings account however, the following accounts are the resulting movements.

		Payables £'000	Receivables £'000	Cost of investment £'000	Retained Earnings £'000
Rapid Fundings Limited	Previous - Holding Company		(10,399)		(10,399)
Rapid Acquisitions Limited	Previous - Immediate Parent		(17,030)		(17,030)
M and M Sports Limited	Previous - Subsidiary	29,614		(27,914)	1,700
		29,614	(27,429)	(27,914)	(25,729)

Notes *(continued)*

20 Related party transactions *(continued)*

Terms and conditions of transactions with related parties

The Company has the option to utilise an inter-company loan facility with Bestseller, details are disclosed in note 13.
At 29 July 2018, the amount due was £2,668,000 (2017: £41,000).

Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees received for any related party payables.

21 Ultimate parent company and immediate parent company

The Company's immediate parent undertaking is Aktieselskabet af 5.6.2014, a company registered in Denmark.

In the directors' opinion the Company's ultimate controlling party is Heartland A/S, a company registered in Denmark

The largest group in which the results are consolidated is Heartland A/S, which is registered in Denmark. The smallest group in which they are consolidated is Bestseller A/S, which is registered in Denmark.

The consolidated financial statements for the group may be obtained at:

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Langelinie Alle 17
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Denmark

www.cvr.dk