

Cath Kidston Acquisitions Limited
Annual Report and Financial Statements
for the 52 weeks ended 25 March 2018

Registered number: 07180438

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Cath Kidston Acquisitions Limited

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Cath Kidston Acquisitions Limited

Strategic Report

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

Principal activities

Cath Kidston Acquisitions Limited is an intermediate holding Company that also holds the bank debt for the wider Cath Kidston group. The principal activity of its subsidiary undertakings is that of designer, wholesaler and retailer of fabrics, home furnishing products and fashion accessories.

Review of the business

The income statement on page 4 shows a loss on ordinary activities before tax of £3.3m (2017: loss of £5.8m).

There has been no significant change in the nature or level of activity during the period.

Principal risks and uncertainties

The Board has overall responsibility for the Company's approach to assessing risk and recognises that creating value is the reward for taking and accepting risk. Executive management implements the Board's policies on risk and control and provides assurance on compliance with these policies.

The Company's financial assets and liabilities mainly comprise investment in subsidiary, bank loans and inter-group payables and receivables.

From the perspective of the Company, the principal risk relates to the servicing of the interest on the bank loan. This risk is managed through review of the Company's relationship with its subsidiary, Cath Kidston Limited (an obligor to the bank loan), and the margin it charges on the loan. Additionally, where possible the Company also enters into interest rate swaps.

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

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

The Company has no significant concentration of credit risk, with exposure spread over a larger number of counterparties.

Future Outlook

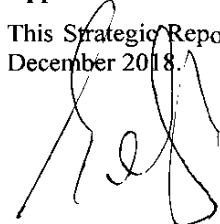
The Company's performance is expected to continue throughout the next financial period and it is anticipated that the current performance levels will be maintained.

Key Performance Indicators

Given the straightforward nature of the business, the Directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

Approval

This Strategic Report was approved on behalf of the Board of Directors and signed on behalf of the Board on xx December 2018.



M Paraie
Director
17 December 2018

Cath Kidston Acquisitions Limited

Directors' report

The Directors present their annual report together with the financial statements for the 52 weeks ended 25 March 2018.

Dividends

No dividend was paid or proposed during the year (2017: £nil).

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements.

Directors

The Directors, who served throughout the year except as noted, were as follows:

K Albolote

W Flanz

N Harrington (resigned 7 September 2018)

M Paraie (appointed 18 June 2018)

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Approved by the Board and signed on its behalf by:



M Paraie

Director

17 December 2018

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

Cath Kidston Acquisitions Limited

Directors' responsibilities statement

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 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; 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Cath Kidston Acquisitions Limited

Income statement

For the 52 weeks ended 25 March 2018

	Note	2018 £000	2017 £000
Administration costs		(155)	(2,353)
Operating loss		(155)	(2,353)
Interest receivable and similar income	5	1,708	222
Interest payable and similar charges	6	(4,834)	(3,632)
Loss before tax		(3,281)	(5,763)
Tax	7	-	-
Loss for the year	4	(3,281)	(5,763)

Cath Kidston Acquisitions Limited
Statement of comprehensive income
For the 52 weeks ended 25 March 2018

	2018 £000	2017 £000
Loss for the year	(3,281)	(5,763)
Items that may be reclassified subsequently to profit or loss	-	-
Available for sale financial assets		
Gains / (losses) arising during the period	-	(130)
Cash flow hedges		
Gains / (losses) arising during the period	-	-
Less: reclassification adjustments for gains / (losses) included in profit	-	456
Income tax relating to items that may be reclassified	-	(80)
Other comprehensive income for the year, net of income tax	-	246
Total comprehensive loss for the period	(3,281)	(5,517)

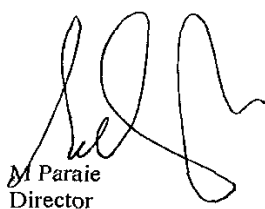
Cath Kidston Acquisitions Limited

Balance sheet

As at 25 March 2018

	Note	2018 £000	2017 £000
Non-current assets			
Investments in subsidiaries	8	108,614	108,614
		<u>108,614</u>	<u>108,614</u>
Current assets			
Trade and other receivables	9	32,239	7,646
Cash and bank balances		425	-
		<u>32,664</u>	<u>7,646</u>
Total assets		<u>141,278</u>	<u>116,260</u>
Current liabilities			
Trade and other payables	10	(70,972)	(47,392)
Borrowings	11	(5,000)	(541)
		<u>(75,972)</u>	<u>(47,933)</u>
Non-current liabilities			
Borrowings	11	(23,284)	(23,024)
		<u>(23,284)</u>	<u>(23,024)</u>
Net current liabilities		<u>(43,308)</u>	<u>(40,287)</u>
Total liabilities		<u>(99,256)</u>	<u>(70,957)</u>
Net assets		<u>42,022</u>	<u>45,303</u>
Equity			
Share capital	13	13,339	13,339
Hedging reserve	14	-	-
Retained earnings		28,683	31,964
Total equity		<u>42,022</u>	<u>45,303</u>

The financial statements were approved by the board of Directors and authorised for issue on 17 December 2018. They were signed on its behalf by:


M Paraie
Director

Registered number: 07180438

For the period ending 25 March 2018 the Company was entitled to exemption from audit under section ^{479a}~~479C~~ of the Companies Act 2006 relating to subsidiary companies.

The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476.

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

Cath Kidston Acquisitions Limited
Statement of changes in equity

			£000	
	Share Capital	Hedging Reserve	Retained Earnings	Total Equity
Balance at 27 March 2016	13,339	(129)	37,481	50,691
Loss for the period	-	-	(5,763)	(5,763)
Total comprehensive income for the period	-	129	246	375
Balance at 26 March 2017	13,339	-	31,964	45,303
Loss for the period	-	-	(3,281)	(3,281)
Total comprehensive income for the period	-	-	(3,281)	(3,281)
Balance at 25 March 2018	13,339	-	28,683	42,022

Cath Kidston Acquisitions Limited

Notes to the financial statements

For the 52 weeks ended 25 March 2018

1. General information

Cath Kidston Acquisitions Limited is a Company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 2. The nature of the Company's operations and its principal activities are set out in the strategic report on page 1.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of Cath Kidston Group Limited. The group accounts of Cath Kidston Group Limited are available to the public and can be obtained as set out in note 17.

2. Significant accounting policies

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

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

Where relevant, equivalent disclosures have been given in the group accounts of Cath Kidston Group Limited. The group accounts of Cath Kidston Group Limited are available to the public and can be obtained as set out in note 17.

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

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

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

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

Cath Kidston Acquisitions Limited

Notes to the financial statements (continued)

For the 52 weeks ended 25 March 2018

2. Significant accounting policies (continued)

Going concern

During the period, the Company made a loss of £3.3m (2017: loss of £5.8m) and the balance sheet shows net current liabilities of £43.3m (2017: net current liabilities of £40.3m). The Company is a guarantor of the Group's debt facilities and going concern is therefore assessed across the Group as a whole.

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

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

Investments in subsidiaries

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

Operating loss

Operating loss is stated after charging refinancing costs but before investment income and finance costs.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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

Cath Kidston Acquisitions Limited
Notes to the financial statements (continued)
For the 52 weeks ended 25 March 2018

2. Significant accounting policies (continued)

Deferred tax (continued)

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

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial Assets

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

Cath Kidston Acquisitions Limited
Notes to the financial statements (continued)
For the 52 weeks ended 25 March 2018

2. Significant accounting policies (continued)

Financial instruments (continued)

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Available for sale (AFS) financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

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

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

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

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

Cath Kidston Acquisitions Limited
Notes to the financial statements (continued)
For the 52 weeks ended 25 March 2018

2. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

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

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

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

Financial liabilities and equity

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

Equity instruments

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

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

Cath Kidston Acquisitions Limited
Notes to the financial statements (continued)
For the 52 weeks ended 25 March 2018

2. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Other financial liabilities

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

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss

Cath Kidston Acquisitions Limited
Notes to the financial statements (continued)
For the 52 weeks ended 25 March 2018

2. Significant accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments (continued)

immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

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

Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Movements in the hedging reserve in equity are detailed in note 14.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the profit and loss account relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the profit and loss account as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Cath Kidston Acquisitions Limited
Notes to the financial statements (continued)
For the 52 weeks ended 25 March 2018

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Fair value measurements and valuation processes

Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available.

Impairment of investments in subsidiaries

Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value in use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. The carrying amount of investments in subsidiaries at the balance sheet date was £108.6m with no impairment loss recognised in 2018 or 2017.

4. Exceptional Costs

The following non-underlying items have been charged to loss before tax.

	2018 £000	2017 £000
Included within operating loss:		
Refinancing costs	(155)	(2,352)
Total non-underlying items	(155)	(2,352)

Refinancing costs of £155,000 were incurred in the period (2017: £2,352,000) following Baring Private Equity Asia ("Baring Asia") in 2017 acquiring the equity stake of TA Associates, the US private equity company, becoming the controlling majority shareholder in the Group. As part of the transaction, Baring Asia injected £25m of funding into the Group in 2017, which was used to repay some of the Group's bank debt.

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5. Interest receivable and similar income

	2018 £000	2017 £000
Interest income:		
Interest receivable on loans to related parties	1,708	222
	<u>1,708</u>	<u>222</u>

6. Interest payable and similar charges

	2018 £000	2017 £000
Interest payable:		
Interest on bank overdrafts and loans	(1,555)	(2,329)
Amortisation of loan arrangement fees	(305)	(393)
Interest payable on loans from related parties	(2,938)	(864)
Other interest	(36)	(46)
	<u>(4,834)</u>	<u>(3,632)</u>

7. Tax

	2018 £000	2017 £000
Corporation tax:		
Current year	-	-
Adjustments in respect of prior years	-	-
	<u>-</u>	<u>-</u>

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Notes to the financial statements (continued)
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7. Tax (continued)

Corporation tax is calculated at 19 per cent (2017: 20 per cent) of the estimated taxable profit for the year.

The charge for the year can be reconciled to the loss in the income statement as follows:

	2018 £000	2017 £000
Loss before tax	(3,281)	(5,763)
Tax at the UK corporation tax rate of 19% (2017: 20%)	(623)	(1,153)
Effects of:		
Tax effect of expenses that are not deductible in determining taxable profit	7	9
Tax effect of other tax rates	-	31
Group relief	537	1,113
Amounts not recognised	79	-
Tax expense for the year	-	-

No amounts relating to tax have been recognised in other comprehensive income.

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised in other comprehensive income:

	2018 £000	2017 £000
Deferred Tax:		
Items that may be reclassified subsequently to profit or loss:		
Available for sale financial assets		
Gains / (losses) arising during the period	-	(80)
Total income tax recognised in other comprehensive income (note 12)	-	(80)

8. Investment in subsidiaries

	2018 £000	2017 £000
Investments in subsidiaries	108,614	108,614
	108,614	108,614

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

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Notes to the financial statements (continued)
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8. Investment in subsidiaries (continued)

Details of the Company's subsidiaries at 25 March 2018 are as follows:

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

* Companies not directly held by Cath Kidston Acquisitions Limited

The investments in subsidiaries are all stated at cost less provision for impairment.

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

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

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

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

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

9. Trade and other receivables

	2018 £000	2017 £000
Amounts owed by Group undertakings	32,210	7,573
Prepayments and accrued income	29	73
	<u>32,239</u>	<u>7,646</u>

Interest on group loans accrues at base rate plus 2.0% per annum. Where group loans are connected to shareholder loan, interest accrues at 12.0% per annum.

All trade and other receivables are due within one year and are payable on demand.

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10. Trade and other payables

	2018 £000	2017 £000
Trade creditors and accruals	(256)	(548)
Other creditors	-	-
Amounts owed to Group undertakings	(70,716)	(46,844)
	<u>(70,972)</u>	<u>(47,392)</u>

Interest on group loans accrues at base rate plus 2.0% per annum. Where group loans are connected to shareholder loan, interest accrues at 12.0% per annum.

All trade and other payables are due within one year and are payable on demand.

11. Borrowings

	2018 £000	2017 £000
Unsecured borrowing at amortised cost		
Bank overdrafts	-	(541)
Bank loans	(24,274)	(24,274)
Revolving credit facility	(5,000)	-
Amortised bank fees	990	1,250
	<u>(28,284)</u>	<u>(23,565)</u>
Total borrowings		
Amount due for settlement within 12 months	<u>(5,000)</u>	<u>(541)</u>
Amount due for settlement after 12 months	<u>(23,284)</u>	<u>(23,024)</u>

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

- (i) Bank overdrafts are repayable on demand.
- (ii) The Company has a revolving credit facility available of £6.5m (2017: £6.5m), of which £5.0m (2017: £nil) was utilised at the balance sheet date.
- (iii) The Company has a bank loan of £24.3m (2017: £24.3m). The loan was taken out on 1 August 2013. The loan has three tranches that carry interest rates at 4.50-6.00% above the 3 month LIBOR. The loan was repaid in full after the period end (note 15). Some of the Company's subsidiaries are part of a cross guarantee with other members of the Group. The total Group borrowings covered by this guarantee at the period end was £24.3m (2017: £24.3m).

Cath Kidston Acquisitions Limited
Notes to the financial statements (continued)
For the 52 weeks ended 25 March 2018

12. Deferred tax

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

	Total £000
At 27 March 2016	80
Charge to other comprehensive income	(80)
At 26 March 2017	-
Charge to other comprehensive income	-
At 25 March 2018	-

13. Share capital

Allotted, called up and fully paid share capital

	2018 Number	2018 £000	2017 Number	2017 £000
Ordinary shares of £0.15 each	88,925,001	13,339	88,925,001	13,339
	<u>88,925,001</u>	<u>13,339</u>	<u>88,925,001</u>	<u>13,339</u>

The Company has one class of ordinary shares which carry no right to fixed income.

14. Hedging reserve

	Total £000
At 27 March 2016	(129)
Gain/(loss) recognised on cash flow hedges:	
Interest rate swaps	157
<i>Income tax related to gains/(losses) recognised in other comprehensive income</i>	(28)
At 26 March 2017	-
Charge to other comprehensive income	-
At 25 March 2018	-

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Cath Kidston Acquisitions Limited

Notes to the financial statements (continued)

For the 52 weeks ended 25 March 2018

15. Events after the balance sheet date

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

16. Related party transactions

The Company has taken advantage of the exemption allowed by FRS 101 "Reduced Disclosure Framework" not to disclose any transactions with wholly owned entities that are included in the financial statements of Cath Kidston Group Limited. There were no other related party transactions.

17. Controlling party

In the opinion of the Directors, the Company's ultimate parent Company is Cath Kidston Group Limited and ultimate controlling party is Barings Private Equity Asia V Holding (18) Limited, incorporated in Hong Kong. The parent undertaking of the largest and smallest group, which includes the Company and for which group accounts are prepared, is Cath Kidston Group Limited, a Company incorporated in Great Britain. Copies of the group financial statements of Cath Kidston Group Limited are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.