Karen Millen Fashions Limited

Annual report and financial statements

Period from 25 February 2018 to 2 March 2019

Company Registration No. 06822177 (England and Wales)

Contents

Company Information

Directors	Neil McCausland Beth Butterwick Emily Tate
Secretary	Heatons Secretaries Limited
Company number	06822177
Registered office	The Triangle Stanton Harcourt Industrial Estate Stanton Harcourt Witney Oxfordshire OX29 5UT
Auditor	KPMG LLP Gateway House Tollgate Chandler's Ford Eastleigh SO53 3TG
Banker	Barclays Bank plc 1 Churchill Place London E14 5HP
Solicitor	White and Case LLP 5 Old Broad Street London EC2N 1DW

Strategic Report

Principal activities of the business

The principal activity of the Company is selling beautifully crafted women's clothing, footwear and accessories. The Group, to which the Company belongs, continues to develop and add to its core categories as well as planning and introducing new ones. Karen Millen is a truly global business and trades through stores, concessions, digital, franchise, wholesale and licensing channels across 6 continents.

Karen Millen Fashion Limited is a subsidiary of Karen Millen Holdings Limite and a member of the Karen Millen group of companies (the "Karen Millen Group" or the "Group").

Objectives and strategy

The Group's objectives are to return to sustainable profitable growth and to optimise returns for its shareholders.

On 11th October 2018, the Karen Millen Group acquired certain assets of the Coast business to enable it to strengthen its position in the premium womenswear market. Under Karen Millen, Coast trades primarily across its various websites, in concessions across the UK and through wholesale and franchise partners. The digital business again grew significantly year-on-year following further investment in the web platform which has provided an enhanced offering for customers. Other initiatives that have been implemented include improving the Karen Millen and Coast product ranges, further rationalisation of the store estate and efficiency and cost saving initiatives.

Business review and key performance indicators

The executive management team reviews detailed daily, weekly and monthly information covering a range of financial and non-financial key performance indicators, which they consider are effective in measuring delivery of their strategy, and which assist in the management of the business.

Total Group turnover for the 52 week period amounted to £174.7 million (2018: £161.9 million).

The Group operating loss for the period amounted to £8.4 million (2018: £1.4 million).

During the period, the Group continued to invest in infrastructure. This included the investment in a new web platform in order to enhance the online and mobile offering to customers which will drive Karen Millen towards being a true omni channel business.

Financing

With effect from 2nd October 2015, the Group entered into a stand-alone Senior Facilities Agreement (“SFA”) providing term debt and also committed revolving credit facilities. The SFA has been provided by Aurora Fashions Finance Limited in its capacity as lender, agent and security agent for Kaupthing Bank ehf. Kaupthing Bank ehf remains the ultimate owner of the Karen Millen Group via its shareholding in Aurora Fashions Group Limited. Within this corporate structure, the Karen Millen Group remains a separate banking group responsible for its own treasury management.

These facilities are subject to financial covenant targets that adjust through the maturity of the loans.

Liabilities falling due in greater than one year in the Group balance sheet are £51.1 million (2018: £42.5 million), resulting in net liabilities of £23.3 million (2018: £12.7 million).

Strategic Report *(continued)*

Brexit

The basis on which the United Kingdom's withdrawal from the European Union will take place remains unclear. A no deal withdrawal, under which there is no free trade agreement, is likely to have the greatest impact on the Group. In preparation for a no deal withdrawal, the Group formed a Brexit committee which has identified the key risks and operational challenges for the Group. The committee has developed a number of strategies and contingency plans which will assist in minimising any disruption caused by Brexit. There remain indirect risks which are outside the Group's control and the level of risk that they pose is reliant on the readiness of the national authorities and other businesses.

Outlook

In mitigation, 46.3% (2018: 50.2%) of our sales come from outside the UK and any short term foreign exchange movements have been predominantly alleviated through hedging for the next 9-12 months. Despite the challenging market conditions, by continuing to focus on our customers, by improving our product ranges and by delivering our planned initiatives, the Board is confident in the Group's prospects for the current year and beyond.

Principal risks and uncertainties

The risks and uncertainties described below represent those which the Directors consider to be the most significant to delivering the Group's strategy. These are reviewed on a regular basis and mitigating actions put in place as required.

Changes in fashion trends

The principal risk faced by the Group, along with all fashion retailers, is that the product offering will not satisfy customers, leading to reduced revenues, margins or excess inventory. Across the Group the risk is managed by having an experienced team in place, with a high level of market awareness and understanding of fashion and consumer needs, operating an in-house design and product development model.

Supply chain

The Group is dependent on the ability of its suppliers to manufacture its products to the desired quality and ethical standards and on its logistics providers to ensure it reaches the required location on a timely basis. If product is not delivered on time and to the required specifications there is a risk that revenue will be impacted. In addition, if suppliers do not work within the Group's required ethical standards, it could have a negative impact on the Karen Millen and Coast brand reputations. The Group works closely with its suppliers to mitigate these risks. The Group ensures that all suppliers agree to the ethical and operating trading standards which it has in place. The standards, arrangements and contingency plans are under regular review by management.

People

It is key to the Group's success to attract, retain, develop and motivate the best people with the appropriate capabilities at all levels of the organisation. Performance could be negatively impacted by the loss of key individuals or the inability to obtain suitable replacements in a timely manner. We endeavour to retain key employees by ensuring that appropriate levels of incentivisation are in place and by having a unique work culture and environment.

Strategic Report *(continued)*

Foreign exchange risk

The Group purchases the majority of its product stock from overseas and is therefore exposed to foreign currency risk; primarily the US Dollar. This therefore exposes the business to risk of exchange rate fluctuations which could have a significant impact on margins. The anticipated exit of the UK from the EU has resulted in a devaluation of sterling against the US Dollar and increased volatility. Exchange rates are monitored on a daily basis. Currency hedge instruments are put in place to manage foreign currency risk in accordance with our treasury policy.

Liquidity risk

The group has a revolving credit facility ("RCF") to manage its working capital requirements. Senior management reviews cash flow forecasting on a weekly basis and liquidity risk forms part of the monthly main board meetings where risks and opportunities are considered.

Health and safety

The health and safety of all employees, customers, contractors, sites and equipment is very important to the Group. Breaches of health and safety could result in injuries and also damage to the Karen Millen and Coast brand reputations. The Group has processes and procedures in place to mitigate health and safety risks, including risk assessments, accident reporting and nominated health and safety representatives across the business. Policies and procedures are reviewed regularly to ensure health and safety management is robust and up to date.

By order of the board

Beth Butterwick
Chief Executive Officer

Date:

Directors' Report

The directors present their annual report and the audited financial statements for the 52 week period from 25 February 2018 to 2 March 2019. The comparative period is the 52 week period from 26 February 2017 to 24 February 2018.

Directors

The Directors of the Company during the period were :

Neil McCausland

Beth Butterwick

Emily Tate

Results and dividends

The Company's results are set out on page 10. Total Turnover for the 52 week period amounted to £135.1 million (2018: £120.8 million). The Company made a loss for the period of £6.5 million (2018: £4.0 million) and had net current liabilities of £15.3 million (2018: £8.6 million) and net liabilities of £4.8 million (2018: net assets of £1.7 million).

Political contributions

The Company made no political contributions during the period (2018: £nil).

Employees

Considerable importance is placed on communication, involvement and motivation of the employees and management of the Company. Two-way communication ensures that employees are kept informed of the performance of the Company and of any key initiatives or projects, through regular briefings and bulletins.

The Company is committed to the continuing development of its employees and the implementation of policies that enable them to contribute to the performance and long-term effectiveness of the organisation. Every opportunity is taken to reinforce our values throughout the business.

Equality of opportunity is encouraged irrespective of sex, marital status, colour, race, ethnic origin, nationality, religion, age or disability. The same opportunities are offered to disabled people as to all others in respect of recruitment and career advancement. Employees who become disabled will, wherever possible, be retained, rehabilitated and retrained.

Disclosure of information to auditor

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

Auditor

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

By order of the board

Beth Butterwick **Date:**
Chief Executive Officer
The Triangle
Stanton Harcourt Industrial Estate
Stanton Harcourt
Witney
Oxfordshire
OX29 5UT

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

• select suitable accounting policies and then apply them consistently;

• make judgements and 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

• assess the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern; and

• use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Independent auditor's report to the members of Karen Millen Fashions Limited

Opinion

We have audited the financial statements of Karen Millen Fashions Limited for the period ended 2 March 2019 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes including the accounting policies in note 1.

In our opinion the financial statements:

• give a true and fair view of the state of the company's affairs as at 2 March 2019 and of the company's loss for the year then ended;

• have been properly prepared in accordance with UK accounting standards, including FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and

• have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

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

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

• we have not identified material misstatements in the strategic report and the directors' report;

• in our opinion the information given in those reports for the financial period is consistent with the financial statements; and

• in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor’s report to the members of Karen Millen Fashions Limited (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by 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;

We have nothing to report in these respects.

Directors’ responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities

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

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

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

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

William Smith (Senior Statutory Auditor) Date:
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Gateway House
Tollgate, Chandler's Ford
Eastleigh SO53 3TG

Profit and Loss account and Other Comprehensive Income
for the period ended 2 March 2019

	Note	52 week period ended 2 March 2019 Total £m	52 week period ended 24 February 2018 Total £m
Turnover	2	135.1	120.8
Cost of sales		(69.3)	(61.4)
Gross profit		65.8	59.4
Distribution costs		(44.8)	(39.5)
Administrative expenses	3	(29.2)	(21.9)
Operating loss	4	(8.2)	(2.0)
Interest receivable and similar income	7	2.8	0.0
Interest payable and similar charges	7	(2.0)	(2.1)
Loss before taxation		(7.4)	(4.1)
Tax on loss	8	0.9	0.1
Loss after taxation for the financial period		(6.5)	(4.0)
Other comprehensive income		-	-
Total comprehensive loss for the year		(6.5)	(4.0)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

The notes on pages 13 to 23 form part of the financial statements.

Balance Sheet
at 2 March 2019

	Note	2 March 2019 £m	2 March 2019 £m	24 February 2018 £m	24 February 2018 £m
Fixed assets					
Intangible assets	9	3.7		4.0	
Tangible fixed assets	10	6.7		6.6	
Investments	11	0.2		0.2	
			10.6		10.8
Current assets					
Stocks	12	20.9		19.6	
Debtors (Including £2.8m (2018: £2.8m) due after more than one year)	13	18.1		19.4	
Cash at bank and in hand		3.2		5.7	
			42.2		44.7
Creditors : amounts falling due within one year	15		(57.5)		(53.3)
Net current liabilities			(15.3)		(8.6)
Total assets less current liabilities			(4.7)		2.2
Creditors : amounts falling due after more than one year	16		(0.1)		(0.5)
Net liabilities			(4.8)		1.7
Capital and reserves					
Called up share capital	18		-		-
Profit and loss account			(4.8)		1.7
Shareholders' funds - equity interests			(4.8)		1.7

The notes on pages 13 to 23 form part of the financial statements.

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

Emily Tate

Chief Financial Officer

Company registered number: 06822177

Statement of Changes in Equity

	Called up Share capital	Profit and loss account	Total equity
	£m	**£m**	**£m**
Balance at 26 February 2017	-	5.7	5.7
Total comprehensive income for the period :			
Profit or loss	-	(4.0)	(4.0)
Other comprehensive income	-	-	0.0
Total comprehensive income for the period	-	(4.0)	(4.0)
Balance at 24 February 2018	**-**	**1.7**	**1.7**

	Called up Share Capital	Profit and loss account	Total equity
	£m	**£m**	**£m**
Balance at 25 February 2018	-	1.7	1.7
Total comprehensive income for the period :			
Profit or loss	-	(6.5)	(6.5)
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	(6.5)	(6.5)
Balance at 2 March 2019	**-**	(4.8)	(4.8)

The notes on pages 13 to 23 form part of the financial statements.

Notes forming part of the financial statements

1 Accounting policies

Karen Millen Fashions Limited (the "Company") is a private company incorporated, domiciled and registered in England and Wales in the UK.

The Company is exempt by virtue of s400 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.

1.1 Basis of Preparation - Accounting Convention

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including FRS 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and the Companies Act 2006, as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied.

The presentational currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £0.1m unless otherwise stated.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis except that financial instruments are classified at fair value through the profit and loss.

1.3 Compliance with accounting standards

The Company is a wholly owned subsidiary of Karen Millen Holdings Limited (06818444) and of its ultimate parent, Aurora Fashions Group Limited (07410878). It is included in the consolidated financial statements of Aurora Fashions Group Limited which are publicly available. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Aurora Fashions Group Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company was, at the end of the period, a subsidiary of another company incorporated in the EEA and in accordance with Section 400 of the Companies Act 2006, is not required to produce, and has not published, consolidated accounts.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Company has not retrospectively changed its accounting under old UK GAAP for derecognition of financial assets and liabilities before the date of transition, or accounting estimates.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.14.

1.4 Basis of preparation - going concern

The Company made a loss for the period of £6.5 million (2018: £4.0 million) and had net current liabilities of £15.3 million (2018: £8.6 million) and net liabilities of £4.8 million (2018: net assets of £1.7 million).

The Karen Millen Group made a loss for the period of £8.6 million (2018: £9.4 million) and had net current assets of £17.1 million (2018: £18.0 million). At the period end the Group had net liabilities of £23.3 million (2018: £12.7 million). The 2018 comparative numbers referenced in the notes to the financial statements refer to the 52 week period ended 24 February 2018.

The directors have prepared the financial statements on a going concern basis for the reasons set out below:

With effect from 2nd October 2015 the Group entered into a stand-alone Senior Facilities Agreement ("SFA") providing term debt and committed revolving credit facilities. The SFA has been provided by Aurora Fashions Finance Limited in its capacity as lender, agent and security agent for Kaupthing Bank ehf. Kaupthing Bank ehf remains the ultimate owner of the Karen Millen Group via its shareholding in Aurora Fashions Finance Limited. Within this corporate structure, the Karen Millen Group remains a separate banking group responsible for its own treasury management.

These facilities are subject to financial covenant targets that adjust through the maturity of the loans. Each of the covenants is forecast to be satisfied - where not covered by a waiver - for the foreseeable future.

1 Accounting policies (continued)

The directors of Karen Millen Holdco 1 Limited have prepared projected cash flows up to the period ending February 2022 (the "Projections"). The Projections are based on certain assumptions and show that the Karen Millen Group is capable of operating within the facilities currently available and complying with the covenant requirements, where not waived, for the full term covered by the Projections. Aurora Fashions Group Limited has confirmed its intention to provide financial support, should it be required, for the foreseeable future. The directors are comfortable that this support, being for a period of not less than 12 months, would meet the requirements of the Group in addressing day to day working capital needs.

For this reason they continue to adopt the going concern basis in preparing the annual report and financial statements.

1.5 Foreign currency translation

Transactions denominated in foreign currencies are converted using an average rate representative of the exchange rate during the month. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

1.6 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Investments in subsidiaries and associates

These are separate financial statements of the company. Investments in subsidiaries and associates are carried at cost less impairment.

1.7 Other financial instruments

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss with the exception of investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably. Such investments are measured at cost less impairment.

1.8 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

On a straight line basis:

Short leasehold and improvements	Over the period of lease
Fixtures and fittings	5-10 years
Computer hardware and software	3-5 years
Motor vehicles	4 years

Notes forming part of the financial statements

1 Accounting policies (continued)

1.9 Intangible fixed assets and amortisation

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds fair value of such net assets.

At the date of transition to FRS 102, the Company's goodwill had a remaining useful economic life of 13 years. There have been no events which affect this estimate at the date of transition to FRS 102, and as such the Directors consider it appropriate to continue to amortise the goodwill over this period on a straight-line basis as it reflects management's best estimate of its useful economic life. Goodwill has no residual value. In support of the continuing useful economic life, factors considered are the nature of the business, product lifecycle and overall industry sector performance and projections. Net present value of future cash inflows are measured at respective entity level, key assumptions are based on historical trends and future market expectations.

1.10 Investments

Investments are included at cost less impairment.

1.11 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on normal levels of activity and where appropriate, the cost of transportation and conversion to current location and condition. Net realisable value comprises the actual or estimated selling price less all further costs to completion.

1.12 Impairment of fixed assets and goodwill

The carrying amounts of the Company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment is recognised when the carrying amount of an investment, fixed asset or goodwill exceeds the recoverable amount. The recoverable amount of the asset is the higher of net realisable value or value in use. To the extent that the carrying amount exceeds the recoverable amount, the difference will be recognised as an impairment loss through the profit and loss account.

In respect of tangible fixed assets held at retail locations, the directors use the concept of payback period, defined as net book value divided by EBITDA, to help identify any indicators of impairment. Where such an indicator exists, an assessment of the retail location's prospects is performed based on budgeted data and facts and circumstances specific to that location. For retail locations where the directors do not expect a sufficient improvement in performance, or where there exists a plan to close the store, the assets assigned to that store are impaired.

Where an indicator of impairment exists in respect of goodwill or investments, the value in use is assessed by discounting the expected future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. The directors assess that future cash flows approximate to the EBITDA generated by the assets that gave rise to the goodwill, or to the EBITDA generated by the subsidiary undertakings in the case of investments.

1.13 Employee Benefits

The Company provides a range of benefits to employees including paid holiday arrangements, product discount facilities, and private health insurance, amongst others.

The Company provides access to a stakeholder pension for all UK employees. In addition, contributions are made to specific employees' personal pension plans. In accordance with government legislation, all eligible employees are auto-enrolled into a qualifying pension scheme.

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

1 Accounting policies (continued)

1.14 Accounting estimates and judgements

The Company estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The accounting estimates believed to require subjective judgements are as follows:

- carrying value of assets relating to goodwill
- carrying value of deferred tax asset

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated. The recoverable amount of goodwill has been determined based on the fair value of net assets acquired and net present value of future cash inflows, the calculation of which requires the use of estimates.

The directors review the recognition of the Group's deferred tax assets on an annual basis. The review ensures that deferred tax assets are only recognised to the extent that they are expected to be recoverable from suitable future taxable profits.

1.15 Provisions

A provision is recognised where the group has a legal or constructive obligation as a result of a past event and it is probable that the outflow of economic benefits will be required to settle the obligation.

1.16 Turnover

Turnover represents the net value of goods sold, services provided or royalties received. Turnover excludes value added tax. Turnover is recognised when the risk and the rewards of ownership of the goods are transferred to the customer. The Group operates retail shops for the sale of a range of own branded products and turnover is recognised on sale to the customer, which is considered the point of delivery. Retail sales are usually by cash, credit or payment card. The group also sells via its websites for delivery to the customer or 'click and collect'. Transactions are settled by creditor payment card.

In certain locations the Group has franchised its brand to overseas third parties. The Group also sells selected stock on a wholesale basis. Sales made to franchise and wholesale customers are recognised once the benefits and rewards of stock ownership have transferred to the customer.

1.17 Interest receivable and interest payable

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in the profit and loss as they accrue, using the effective interest method.

1.18 Tax

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or tax.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.19 Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease. The Group has taken advantage of the exemption in respect of leases in existence on the date of transition to FRS 102 (2 March 2014) and continues to credit such lease incentives to the profit and loss account over the period to the first review date on which the rent is adjusted to market values.

Notes forming part of the financial statements (continued)

2. Analysis of key financial information by sales channels and territory

Turnover by business activity	2019 £m	2018 £m
Retailing - to third parties	92.8	77.3
Retailing - to connected companies	19.5	18.9
Overseas franchising	19.2	22.7
Licensing	1.0	0.6
Wholesaling	2.6	1.3
Total turnover	135.1	120.8

Turnover by geographic area	2019 £m	2018 £m
United Kingdom	113.3	95.1
Russia	4.0	4.7
Rest of Europe	5.3	6.4
Middle and Far East	10.5	12.6
Rest of World	2.0	2.0
	135.1	120.8

3. Expenses and Auditors Remuneration

Auditor's remuneration

The remuneration payable in relation to audit services for all the UK entities of the Karen Millen Group was borne by the Company, including [£XX,XXX] (2018: £18,890) specifically relating to the Company.

Expenses

Exceptional items included within administration costs were as follows:

	2019 £m	2018 £m
Professional fees	1.6	-
Bad debt expense	1.2	
Lease surrender incentives	-	(0.4)
Restructuring costs	2.2	1.3
	5.0	0.9

4. Operating loss

Operating loss is stated after charging the following:	2019 £m	2018 £m
Depreciation of tangible fixed assets	2.5	2.3
Impairment of tangible fixed assets	0.1	0.1
Operating lease rentals	0.8	1.1
Amortisation of goodwill	0.0	0.4

5. Staff numbers and costs

The average number of persons employed by the Group (including directors) during the period was:

	2019	2018
Retail	631	639
Services	229	229
	860	868

Notes forming part of the financial statements (continued)

The aggregate payroll costs of these persons were as follows:	2019 £m	2018 £m
Wages and salaries	21.4	17.7
Social security costs	1.5	1.4
Contributions to defined contribution plans	0.2	0.1
	23.1	19.2

6. Remuneration of directors

	2019 £m	2018 £m
Directors' emoluments	0.9	1.3

The remuneration and amounts receivable under long term incentives schemes of the highest paid director was £0.5 million (2018: £0.4 million).

None of directors have retirement benefits accruing under money purchase schemes (2018: none).

7. Interest receivable and similar income

	2019 £m	2018 £m
Unrealised foreign exchange gains	2.8	-
Total interest receivable and similar income	2.8	-

7. Interest payable and similar charges

	2019 £m	2018 £m
Interest payable on amounts owed to group undertakings	1.8	1.7
Bank charges	0.2	-
Unrealised foreign exchange losses	-	0.4
Total other interest payable and similar expenses	2.0	2.1

8. Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2019 £m	2018 £m
Current tax		
UK corporation tax	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	-	(0.1)
Adjustment in respect of prior period deferred tax	(0.9)	-
Rate change	-	-
Total deferred tax	(0.9)	(0.1)
Tax (credit) on profits on ordinary activities	(0.9)	(0.1)

Reconciliation of effective tax rate

	2019 £m	2018 £m
Loss for the period	(7.4)	(4.1)
Loss on ordinary activities at the standard rate of corporation tax in the UK of [XX%] (2018: 19%)	(1.4)	(0.8)

Notes forming part of the financial statements (continued)

Factors affecting charge for the period:		
Expenses not deductible for tax	0.2	0.2
Origination and reversal of timing differences	0.5	0.3
Under/(over) provided in previous years	(1.0)	-
Timing differences on fixed assets	0.1	(0.1)
Unrelieved losses carried forward	0.6	0.3
	0.4	0.7
Total tax (credit) for the period	(1.0)	(0.1)

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 24 February 2018 has been calculated based on these rates.

The utilisation of brought forward tax losses may reduce the current and total charges in future years. For the Company this amounts to [£12.6]m at the balance sheet date (2018: £10.9m).

9. Intangible assets

	2019
	£m
Cost of goodwill	
At 24 February 2018 and 2 March 2019	7.3
Amortisation	
Balance at 25 February 2018	(3.3)
Charge for the period	(0.4)
Balance at 2 March 2019	(3.7)
Net book value	
At 2 March 2019	3.6
At 24 February 2018	4.0

10. Tangible assets

	Short leasehold and improvements	Fixtures & fittings	Computer hardware and software	Total
	£m	£m	£m	£m
Cost				
Balance at 25 February 2018	0.3	16	10.4	26.7
Additions	-	1.4	1.2	2.6
Disposals	-	(2.0)	(0.1)	(2.1)
Balance at 2 March 2019	0.3	15.4	11.5	27.2
Depreciation and impairment				
Balance at 25 February 2018	0.1	13.5	6.5	20.1
Depreciation charge for the year	-	1.0	1.5	2.5
Impairment charges	-		-	-
Disposals	-	(2.0)	(0.1)	(2.1)
Balance at 2 March 2019	0.1	12.5	7.9	20.5
Net book value				
Balance at 2 March 2019	0.2	2.9	3.6	6.7
Balance at 25 February 2018	0.2	2.5	3.9	6.6

No impairment charges have been made for any stores (2018: £50,749 on four stores). On the basis that each of the stores impaired is loss-making, earmarked for closure, or only marginally profitable, the directors consider the recoverable amount of these stores to be nil.

Notes forming part of the financial statements (continued)

11. Investments

	2019 £m	2018 £m
Cost	0.2	0.2

The directors have assessed the carrying value of investments at the balance sheet date and have concluded that no impairment losses need to be recognised.

The undertakings in which the Company's interest at the end of the period is more than 20% are as follows:
The class of shares held is ordinary shares for all investments.

Subsidiary undertakings		Country of incorporation	Principal activity	Percentage of shares held 2019 and 2018
Directly owned:				
Karen Millen Australia Pty Ltd		Australia	Retail	100%
Associated undertakings				
Directly owned:	Registered Offices			
Aurora Fashions Services Limited	The Triangle, Stanton Harcourt Industrial Estate, Stanton Harcourt, Witney, Oxfordshire, OX29 5UT	UK	Service	25%
Karen Millen (Belgium) BVBA	Leysstraat 1 - 52000 Antwerp, Belgium	Belgium	Retail	24%

The remaining 76% investment in Karen Millen (Belgium) BVBA is held by Karen Millen Holdings Limited, a fellow subsidiary of Karen Millen Holdco 1 Limited.

Overseas subsidiaries	Registered Offices
Karen Millen Australia Pty Ltd	19 Newtown Street Richmond VIC 3121 Australia
Karen Millen (Belgium) BVBA	Leysstraat 1 - 52000 Antwerp, Belgium

12. Stocks and work in progress

	2019 £m	2018 £m
Raw materials and consumables	3.3	4.1
Work in progress	0.4	0.3
Finished goods	17.2	15.2
	20.9	19.6

In the opinion of the directors, there is no material difference between the replacement cost of stock and the amounts stated above.

Included within the stock balance above is a provision of £1.3 million (2018: £1.5 million) following an assessment of the net realisable value for old season stocks.

13. Debtors

	2019 £m	2018 £m
Trade debtors	6.9	4.3
Amounts owed by group undertakings	6.5	10.1
Other debtors	0.6	0.7
Prepayments	1.6	1.6
Accrued income	0.3	0.5
Deferred tax (note 17) (Greater than one year)	2.2	2.2
	18.1	19.4
Due within one year	15.3	16.6
Due after more than one year	2.8	2.8
	18.1	19.4

Trading balances with Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes forming part of the financial statements (continued)

14. Cash at bank and in hand

Cash at bank and in hand for the Company includes £nil of monies held by third parties and is restricted in its use by the Company (2018: £nil).

15. Creditors: amounts falling due within one year

	2019	2018
	£m	£m
Trade creditors	9.3	8.8
Amounts owed to group undertakings	37.0	35.2
Other creditors	2.7	0.8
Corporation tax	0.7	0.7
Other taxation and social security	2.4	1.8
Accruals and deferred income	5.4	6.0
	57.5	53.3

16. Creditors: amounts falling due after more than one year

	2019	2018
	£m	£m
Deferred income	0.1	0.3
	0.1	0.3

Deferred income relates to incentives received on leases held by the Company.

17. Deferred taxation assets and liabilities

	2019	2018
	£m	£m
At the start of the period	2.2	2.1
Net credit/(debit) to profit and loss account (see also note 8)	(0.1)	0.1
At the end of the period	2.1	2.2

The elements of deferred taxation are as follows:	2019	2018
	£m	£m
Timing difference on fixed assets	2.1	2.2
Other timing differences	-	-
Deferred tax asset	2.1	2.2

The directors believe that continued recognition of the deferred tax asset is appropriate based on forecasts showing that sufficient profits will arise in the foreseeable future against which assets will be offset when crystallised.

In addition to the deferred tax asset above, the Company has additional deferred tax assets of [£X.Xm] (2018: £2.1m) in respect of tax losses which have not been recognised by the company due to uncertainly over its recoverability. This will be reassessed at each period end.

18. Share capital

	2019	2018
	£m	£m
Allotted, called up and fully paid:		
1 ordinary shares of £1.00	-	-

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Notes forming part of the financial statements (continued)

19. Financial Instruments

	2019	2018
	£m	£m
The carrying amounts of the financial assets and liabilities measured at fair value include:		
Assets measured at fair value through profit and loss	0.1	0.1
	0.1	0.1

20. Operating leases

The leases for the owned stores in the UK from which the Company trades and other head office and warehouse sites are held by other companies within the Group. The leases for owned stores in Denmark, Finland and Canada are held by the Company.

Annual commitments under non-cancellable operating leases are as follows:	2019	2018
	£m	£m
Less than one year	-	-
Between one and five years	0.1	-
More than five years	-	-
	0.1	**-**

21. Guarantees and other commitments

At the period end, there was a debenture between the Company and certain trading subsidiaries of the Karen Millen Group in favour of Kaupthing ehf. in the form of fixed and floating charges over the undertakings and all property and assets. The net book values of assets are contained within the individual entities' statutory accounts.

Under the terms of the Senior Facilities Agreement dated 2 October 2015 ("SFA) with Aurora Fashions Finance Limited (AFFL), the Karen Millen Group has a number of group companies party to the SFA as guarantors, the values of which are disclosed within the respective company accounts; all previous cross guarantee obligations have been released under the new SFA.

As of 2 October 2015 there is security between the banking sub groups, Oasis and Warehouse, Coast and Karen Millen and certain members of their trading subsidiaries in favour of Aurora Fashions Finance Limited, in the form of fixed and floating charges over the undertakings and all property and assets. The net book value of assets are contained within the individual entities' statutory accounts.

22. Related parties

The Company has related party relationships with its directors and with its ultimate parent company, Kaupthing ehf. The Company also has a related party relationship with the Aurora Fashions Group, as both the Karen Millen Group and the Aurora Fashions Group are owned by Kaupthing ehf. and both groups share certain directors. Kaupthing ehf's holding of shares in Karen Millen Group Limited comprises 100% of all share capital by nominal value and 100% of the voting rights across all share capital.

The Company has taken advantage of the exemption in FRS 102 33.1A Related Parties Transactions not to disclose transactions with wholly owned subsidiary undertakings of the Group consolidated within Aurora Fashions Group Limited.

23. Immediate and ultimate parent company and parent undertaking of larger group

The immediate parent company is Karen Millen Holdings Limited, a company incorporated in the UK (co no. 08818444)

The ultimate parent company is Kaupthing ehf, a company incorporated in Iceland.

The results of the Company are consolidated in Karen Millen Holdco 1 Limited, a company incorporated in the UK. The consolidated accounts of the Karen Millen Group are available from Karen Millen Holdco 1 Limited, The Triangle, Stanton Harcourt Industrial Estate, Stanton Harcourt, Witney, Oxfordshire, OX29 5UT, UK.

24. Post balance sheet events

There are no significant post balance sheet events.