

# **Damartex UK Limited**

## **Report and Financial Statements**

30 June 2017

WEDNESDAY



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COMPANIES HOUSE

**Directors**

L Cordall  
S Creeley  
L A Montgomery  
G Vasili

**Secretary**

S Creeley

**Auditors**

Ernst & Young LLP  
1 Bridgewater Place  
Water Lane  
Leeds LS11 5QR

**Bankers**

Société Générale  
SG House  
41 Tower Hill  
London EC3N 4SG

Lloyds Banking Group  
65-68 Briggate  
Leeds LS1 6LH

**Registered Office**

Bowling Green Mills  
Lime Street  
Bingley  
West Yorkshire BD97 1AD

Registered No. 00852773

## Strategic report

The directors present their strategic report for the year ended 30 June 2017.

### Principal activities and review of the business

Damartex UK Limited is a UK trading subsidiary of Damartex S.A, incorporated in France, a multi-channel, multi-brand European business that creates and distributes products aimed at the senior market. The principal activity of the company continues to be that of retailing, predominantly clothing and accessories, through direct home shopping to the senior lady. The principal trading brand is Damart and during the year ended 30 June 2017 the company also traded under the Sedagyl and Afibel brands.

The reported profit on ordinary activities before taxation was £3,846,000 (2016 – profit of £3,640,000).

The reported result is very pleasing, as it represents a strong result in both trading seasons, both incorporating year on year turnover growth.

### Principal risks and uncertainties

Risk is inherent in the management of the business and the execution of future growth strategies. Key business risks are considered during the development of the company's medium term plans and during the creation of the annual operating plan. Changes made to the company's control environment are designed to manage rather than eliminate the risk of failure to achieve business objectives.

The key business risks affecting the Company are set out below and over the page. The order of risks is in no way an indication of their relative importance.

*The impact of economic uncertainty* – The general economic environment in which we operate has been very difficult for a number of years. While we performed well last year, our customers continue to be impacted by the high level of economic uncertainty. We plan ahead six months which allows us to react and adjust plans reasonably quickly to counter/take advantage of prevailing market conditions.

*We operate in a highly competitive market* – UK demographics indicate growth in our marketplace that could attract new entrants. To address these risks we have adopted a clear focus on the senior market and understand the need to continually improve customer service, to retain and grow our strong and loyal customer base and to deliver attractive, innovative and appropriate product offers.

*Our operating results are subject to seasonal fluctuations and can vary according to the weather conditions* – The Damart brand is synonymous with thermal underwear and warmth. Our business broadly operates on a seasonal basis, particularly with respect to thermals and warm clothing in Autumn Winter and we experience seasonal fluctuation in sales and operating results.

*The company is exposed to foreign currency fluctuations* – In common with other clothing retailers, the company sources goods and promotional gifts from the Far East and Europe, paying in US dollars and Euros. In addition certain marketing costs and other costs incurred by our group on our behalf are paid for in Euros. As a result there is significant exposure to currency exchange risk. This exposure is managed by Damartex S.A. Group on our behalf.

*We rely on the strength of our brands* – Use of the brand names in the UK is closely monitored and action taken against any infringement. Internationally, brand image is protected by our parent undertaking Damartex S.A.

*Changes in consumer demands and fashion trends are a risk* – New seniors are increasingly fashion conscious and more demanding of good service. We recognise that the continued development of our business depends upon meeting these needs through increased product range innovation and investing in improved customer service. At the same time we must ensure that changes in our product ranges and customer communications do not switch off our existing traditional customer base.

## Strategic report (continued)

### Principal risks and uncertainties (continued)

*Due to the volumes involved in our business we are heavily reliant on our IT systems and automated procedures to deliver an efficient outcome* – There are substantial change programmes in place to improve our IT systems, our infrastructure and business efficiency. We work hard to ensure that these change programmes deliver real business improvements and have made significant improvements to our development and implementation processes.

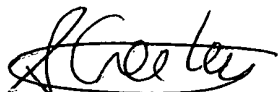
*Royal Mail* – The Royal Mail continues to dominate the market in deliveries over the ‘final mile’ in the UK. As a result, we are exposed to the risk of disruption to the delivery of all mailings to customers’ homes.

*Regulation* – the company works with a number of regulated bodies to ensure full compliance with existing and emerging regulation. The company is a member of the British Retail Consortium which gathers, shares and represents retailers’ views on regulatory matters. The company is authorised and regulated by the Financial Conduct Authority to provide consumer credit. The company uses premium rate telephone numbers under the regulation of the Phone-paid Services Authority (PSA). All company advertising is regulated by the Advertising Standards Authority (ASA).

*Pension* – the company sponsors a closed defined benefit pension scheme. This is subject to risks in relation to liabilities as a result of changes in life expectancy and inflation, and to risks regarding the value of investments and the returns derived from such investments. Benefit accrual ceased with effect from October 2012. The most recent triennial evaluation at 30 September 2016 saw a £2.5m deficit emerge compared to a £0.4m asset three years earlier (note 19).

*Brexit* – On the horizon the uncertainty around trade and borders is a significant near term risk to our operating model. While we import the majority of our clothing products direct from the far east we also import product and marketing materials from the EU. The imposition of tariffs on imports from the EU, changes to the timing of input VAT payable on these imports and disruption at ports of entry are negative factors associated with Brexit.

By order of the Board



S Creeley  
Secretary  
16 March 2018

Registered No. 00852773

## Directors' report

The directors present their report for the year ended 30 June 2017.

### Results and dividends

The profit for the year after taxation amounted to £3,036,000 (2016 profit of £2,860,000). The directors do not propose the payment of a final dividend (2016: £2,284,000).

### Going concern

In determining whether the financial statements can be prepared on a going concern basis, the directors have considered the company's business activities together with the principal risk and uncertainty factors which are likely to affect its future performance and financial position. The continuing support of Damartex S.A. and the 'cash pooling' arrangement is also a factor in the going concern review.

The key risk that the company faces, in common with its parent group, is the impact of the continuing economic uncertainty on the buying activity of its customers. Managing operating costs and working capital needs to changing levels of activity in the short term remains a difficult challenge. Future forecasts and plans continue to be constructed on conservative assumptions to ensure that the UK Company adapts so that it can continue to operate and generate cash. The same approach has been adopted by Damartex S.A.

Based on these considerations the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

### Turnover

Reported company turnover was £103.6m up from £101.1m in the prior year, representing an increase of 2.4%. Both seasons were in line with our budget expectations.

### Operating Profit

Gross profit as a percentage of turnover was 8.8% which is 0.5% points down on 2016, reflecting the increased costs of product purchasing following the weakening of sterling against the US Dollar and also the increased costs of our people where we are impacted by increases to the national living wage premium. Other operating expenses have reduced from £5.7m in 2016 to £5.2m in the year. A key factor here arises from the improved quality of the Damart credit file which saw a 30% reduction in bad debt write offs year on year. Other contributions come from lower consumption of fixed assets year on year and an exchange difference credit versus the debit in the previous year on the back of the significant changes seen in the dollar and euro rates in the year.

### Damartex Objectives

Our strategic development plan "Creating a Compelling Customer Proposition" has the following pillars and long term growth strategies:

- Fit for the Future includes the following development strategies - customer segmentation and top customer care, 21<sup>st</sup> century web experience, brand modernisation and consideration, continuous improvement in operational effectiveness and people development.
- World Class Customer Service Propositions include improvements to our perfect order performance, broadening our suite of delivery options and addressing the question of free returns. We are very proud of the fact that we continue to hold our Servicemark accreditation from the Institute of Customer Service and that our customers rate our service as World Class.
- Sales and Profit includes increasing customer recruitment, driving the efficiency of our marketing activity and spend, targeting product range developments beyond the core clothing offer and broadening the appeal of our consumer credit offer to attract new customer segments.

## Directors' report (continued)

In addition we share the following objectives with other group companies

- The continued development in the UK of Damartex SA group brand Sedagyl;
- UK consumer credit provider for the Damartex Group brands operating in the UK;
- The renewal of our shared group IT infrastructure.

In the year, turnover on the Sedagyl brand declined by 3% and accounted for 3.1% of Damartex UK sales (2016: 3.3%). These sales delivered a profit contribution of 8% of turnover (2016: 11%). Fulfilment for Sedagyl sales is delivered by our sister group subsidiary in France, and as a result of this and other scale efficiencies, the profitability of Sedagyl is relatively strong.

Turnover delivered from the web increased by 36% in the year and now accounts for 15% of overall turnover (2016: 11%). Web turnover was expected to grow by 15% in the 17/18 year and actual growth for the first 6 months, which incorporated Black Friday activity, amounted to 18%. This growth is being driven by new web conversion initiatives, continued refinement of online channels with a focus on customer recruitment and ongoing evolutions of the web platform.

The company continued to provide a credit offering for our Group sister company, Afibel UK. As the consumer credit provider, the additional credit extended to Afibel's customers has added £3.2m (2016: £2.5m) to current assets, against which there is a similar liability included in amounts owed to group undertakings within creditors [note 14]. The agreement with Afibel establishes that Afibel finances the debts, enjoys the rewards and bears the risks of this activity.

In January 2018 the decision was taken to cease trading in the US. It was agreed that the on-going losses incurred, combined with the scale of future investments in business development required to grow the business into profit were too high, especially taking into account the increasing uncertainty being experienced in the UK market following the Brexit referendum. The US activity is being wound down in Spring Summer 2018.

### Funding

Damartex UK Limited continues to be primarily funded by the Damartex S.A. group 'cash pooling' arrangement. Damartex S.A. is a publicly quoted company listed on the Alternext market in France. In its latest results communiqué of 6<sup>th</sup> September, Damartex S.A. reported a net debt position of €35.1m (2016 net debt €10.8m). The increase in net debt reflects mainly the acquisitions made in the year of 3Pagen, Xandres and Vivadia for €27.2m. Damartex S.A. group has confirmed credit lines of €120.0m to 2020.

In the year the UK company net debt position, including Damartex S.A. cash pooling, increased by £1.6m to £2.6m. The main year on year change was the higher investment in new season stock, raising the overall stock balance by £2.3m (16%) to ensure a strong service level to customers for the start of the new season. This increase also reflects in part the impact of the depreciation of sterling which raised the cost of products bought in dollars and euros.

### Outlook

Due to the continuing uncertainty being caused by the ongoing fallout from the Brexit vote and Exit negotiations, and facing into the impact of Sterling's depreciation against both the euro and the dollar, a more cautious approach to our 2017/18 planning was taken. A budget was set with the ambition of maintaining sales at the 2016/17 level for the core Damart brand. This reflects the net result of increasing selling prices to cover the higher cost prices resulting from the sterling depreciation and lower volumes reflecting the anticipated negative price elasticity of our demand. After a difficult autumn winter season Damart brand sales were 0.5% ahead year on year and we have a slightly stronger outlook for spring summer 2018 sales.

2017/18 profit is expected to be lower than 2016/17, primarily as a result of increases in costs which are managed at the Damartex S.A level. A significant factor here is the inflation caused by the depreciation

## Directors' report (continued)

of sterling against the euro, the currency in which group costs are incurred. Our latest forecast is that we will deliver our budgeted profit.

We continue to focus on improving the efficiency of the business, including the targeting of our marketing material, productivity of operational areas and improving the 'perfect order' rate to customers, benefitting the customer experience and reducing cost for the company.

### Key Business Indicators used to drive the business forward

**Customer satisfaction** – Bi-monthly Net Promoter Score (NPS) reporting is used to benchmark customer satisfaction. In support of this measure we have a full range of internal customer measures which focus on:

- Call monitoring and customer surveys to help us exceed customer expectations in terms of quality and responsiveness of our service including our speed of call answering
- Perfect order measures including speed of order processing, product availability and speed of delivery

**Customer loyalty** – The customer database strength is measured in terms of the year on year equivalent number of our most loyal customers. We call this File Power. In support of this we closely review a number of areas:

- Recency and frequency of ordering
- Appropriate investment in customer acquisition and retention
- Customer lifetime value by recruitment source

**Marketing cost ratios** – The balance of the efficiency of activity and investment in recruitment is crucial to the current and future success of the business. Underpinning this, a number of areas on which to focus:

- Profitability and quality of contact
- Attractiveness of catalogues – product & communication
- Balance & approach across channels & customer segments
- Appeal of promotions
- Cost of different recruitment sources versus the quality and value of customers recruited.
- Test performance of new promotions and adverts

**Colleague Engagement** – Quarterly colleague engagement surveys are undertaken using the Institute of Customer Service Servicemark survey.

**Brand Tracker Global Image** – customer survey undertaken following the main book mailing for each season.

### Disabled employees

It is the policy of the company to ensure that full and fair opportunities are given to the employment, training and career development of disabled persons having regard to their particular aptitudes and abilities.

### Employee involvement

The company uses various methods of communicating with employees at all levels in the business including the in-house magazine 'teamspirit', the company intranet, monthly management briefings, monthly team briefings for all employees and consultation committees.

The company continues to inform employees on customer experience, by providing weekly customer experience updates and regularly gathering feedback, to benchmark ourselves against the Institute of Customer Service (ICS) world class service model and fellow competitors.

Employee engagement is gauged by the company via quarterly rolling colleague surveys supporting our ICS 'Servicemark' accreditation.

## **Directors' report (continued)**

### **Directors**

The directors who served the company during the year were as follows:

A R Hill (resigned 31 August 2017)

L Cordall

S Creeley

L A Montgomery

G Vasili

### **Disclosure of information to the auditors**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

### **Auditors**

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board

S Creeley

Secretary

16 March 2018



## Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 '*Reduced Disclosure Framework*'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including Financial Reporting Standard 101 '*Reduced Disclosure Framework*' 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.

# Independent auditor's report

to the members of Damartex UK Limited

## Opinion

We have audited the financial statements of Damartex UK Limited for the year ended 30 June 2017 which comprise Income Statement, the Statement of comprehensive income, the Statement of changes in equity, the Statement of Financial Position and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Use of our report

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

## Conclusions relating to going concern

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

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

# **Independent auditor's report (continued)**

**to the members of Damartex UK Limited**

## **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

## **Matters on which we are required to report by exception**

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

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

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

## **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement [set out on page 8], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Independent auditor's report (continued)**

**to the members of Damartex UK Limited**

### **Auditor's responsibilities for the audit of the financial statements**

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

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

Handwritten signature of Peter Buckler in black ink.

Peter Buckler (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Leeds

16 March 2018

## Income statement

for the year ended 30 June 2017

	Notes	2017 £000	2016 £000
<b>Turnover</b>	3	103,607	101,150
Cost of sales		<u>(94,493)</u>	<u>(91,708)</u>
<b>Gross profit</b>		9,114	9,442
Other operating expenses		<u>(5,165)</u>	<u>(5,705)</u>
<b>Operating profit</b>	4	3,949	3,737
Interest payable and similar charges	6	<u>(103)</u>	<u>(97)</u>
<b>Profit on ordinary activities before taxation</b>		3,846	3,640
Tax	7	<u>(810)</u>	<u>(780)</u>
<b>Profit for the financial year</b>		<u>3,036</u>	<u>2,860</u>

All amounts relate to continuing activities.

## Statement of comprehensive income

for the year ended 30 June 2017

	Notes	2017 £000	2016 £000
<b>Profit for the financial year</b>		3,036	2,860
<b>Other comprehensive income:</b>			
<b>Items that cannot be reclassified to profit and loss:</b>			
Re-measurement losses on defined benefit pension plans	19	(51)	(1,274)
Tax on items relating to components of other comprehensive income	7	<u>10</u>	<u>242</u>
Other comprehensive income for the year, net of tax		<u>(41)</u>	<u>(1,032)</u>
<b>Total comprehensive income for the year</b>		<u>2,995</u>	<u>1,828</u>

## Statement of changes in equity

for the year ended 30 June 2017

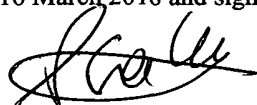
	<i>Called up share capital £000</i>	<i>Share premium account £000</i>	<i>Capital redemption reserve £000</i>	<i>Retained earnings £000</i>	<i>Total Equity £000</i>
At 1 July 2015	7,114	3,243	402	7,011	17,770
Profit for the financial year	—	—	—	2,860	2,860
Other comprehensive income	—	—	—	(1,032)	(1,032)
Equity dividends paid (note 8)	—	—	—	(2,330)	(2,330)
At 30 June 2016	7,114	3,243	402	6,509	17,268
Profit for the financial year	—	—	—	3,036	3,036
Other comprehensive income	—	—	—	(41)	(41)
Equity dividends paid (note 8)	—	—	—	(2,284)	(2,284)
At 30 June 2017	7,114	3,243	402	7,220	17,979

# Statement of Financial Position

at 30 June 2017

	Notes	2017 £000	2016 £000
<b>Fixed assets</b>			
Intangible assets	9	589	336
Tangible assets	10	5,735	4,994
		<u>6,324</u>	<u>5,330</u>
<b>Current assets</b>			
Stocks	12	16,652	14,358
Debtors	13	20,967	20,155
Cash at bank and in hand		2,571	3,931
		<u>40,190</u>	<u>38,444</u>
<b>Creditors: amounts falling due within one year</b>	14	(21,938)	(19,995)
Income tax payable	14	(219)	(130)
<b>Net current assets</b>		<u>18,033</u>	<u>18,319</u>
<b>Total assets less current liabilities</b>		<u>24,357</u>	<u>23,649</u>
<b>Creditors: amounts falling due after more than one year</b>	15	(4,828)	(4,947)
<b>Provisions for liabilities</b>	16	(150)	(125)
<b>Net assets excluding pension assets</b>		<u>19,379</u>	<u>18,577</u>
Defined benefit pension plan deficit	19	(1,400)	(1,309)
<b>Net assets</b>		<u>17,979</u>	<u>17,268</u>
<b>Capital and reserves</b>			
Called up share capital	17	7,114	7,114
Share premium account	18	3,243	3,243
Capital redemption reserve	18	402	402
Retained earnings	18	7,220	6,509
<b>Total Equity</b>		<u>17,979</u>	<u>17,268</u>

The financial statements of Damartex UK Limited were approved for issue by the Board of Directors on 16 March 2018 and signed on its behalf by



S Creeley  
Director

## Notes to the financial statements

at 30 June 2017

### 1. Authorisation of financial statements and statement of compliance with FRS101

The financial statements of Damartex UK Limited for the year ended 30 June 2017 were authorised for issue by the board of directors on 16 March 2018 and the statement of financial position was signed on the board's behalf by Stuart Creeley. Damartex UK Limited is incorporated and domiciled in England and Wales. The registered office is situated at Bowling Green Mills, Lime Street, Bingley BD97 1AD.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The principal accounting policies adopted by the Company are set out in note 2.

### 2. Accounting policies

#### *Basis of preparation*

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 30 June 2017.

The company has taken advantage of the following disclosure exemptions under FRS101:

- (a) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (b) the requirement in paragraph 38 of IAS1 'Presentation of Financial Statements' to present comparative information in respect of:
  - i) paragraph 79(a)(iv) of IAS 1;
  - ii) paragraph 73(e) of IAS16 Property, Plant and Equipment;
  - iii) paragraph 118(e) of IAS38 Intangible Assets;
- (c) the requirements of paragraphs 10(d), 10(f) and 134-136 of IAS 1 'Presentation of Financial Statements';
- (d) the requirements of IAS7 Statement of Cash Flows;
- (e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (f) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
- (g) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The above exemption '(a)' requires an equivalent disclosure to be included in the consolidated financial statements of the group in which Damartex UK Ltd is consolidated. These are available in the Damartex SA group financial statements, a company incorporated in France. Copies of these accounts can be obtained from Damartex SA, 25 Avenue de la Fosse aux Chênes 59100 Roubaix, France.

#### *Group financial statements*

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group financial statements as it is exempt from the requirement to do so by section 400 of the Companies Act 2006 as it is a subsidiary undertaking of Damartex SA, a company incorporated in France, and is included in the group financial statements of that company.



## Notes to the financial statements

at 30 June 2017

### 2. Accounting policies (continued)

#### *Going concern*

Damartex UK Limited continues to be primarily funded by the Damartex S.A. group 'cash pooling' arrangement. Damartex S.A. is a publicly quoted company listed on the Alternext market in France. In its latest results communiqué of 6<sup>th</sup> September, Damartex S.A. reported a net debt position of €35.1m (2016 net debt – €10.8m). Damartex S.A. group has confirmed credit lines of €120.0m to 2020.

In determining whether the financial statements can be prepared on a going concern basis, the directors have considered the company's business activities together with the principal risk and uncertainty factors which are likely to affect its future performance and financial position. The continuing support of Damartex S.A. and the 'cash pooling' arrangement is also a factor in the going concern review.

The key risk that the company faces, in common with its parent group, is the impact of the continuing economic uncertainty on the buying activity of its customers. Managing operating costs and working capital needs to changing levels of activity in the short term remains a difficult challenge. Future forecasts and plans continue to be constructed on conservative assumptions to ensure that the UK company adapts so that it can continue to operate and generate cash. The same approach has been adopted by Damartex S.A.

Based on these considerations the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future.

#### *Judgements and key sources of estimation uncertainty*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

#### *Pension*

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the UK. Future salary increases and pension increases are based on expected future inflation rates for the UK. Further details are given in note 19.

#### *Foreign currencies*

The company's financial statements are presented in sterling, which is also the company's functional currency.

#### *Transactions and balances*

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

## Notes to the financial statements

at 30 June 2017

### 2. Accounting policies (continued)

#### *Foreign currencies (continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### *Intangible assets*

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

#### *Software development costs*

Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Amortisation is provided on all software whether internally generated or not, on a straight-line basis over its expected useful life as follows:

Software	–	20% to 25%
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#### *Investments*

Investments in subsidiaries, associates and joint ventures are held at historical cost less any applicable provision for impairment.

#### *Tangible fixed assets*

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in IAS 23 are capitalised as part of the cost of that asset.

Depreciation is provided on all property, plant and equipment, other than land, on a straight-line basis over its expected useful life as follows:

Freehold buildings	–	2% to 2½%
Plant and machinery	–	10% to 20%
Motor vehicles	–	25%
Fixtures and equipment	–	15%
Computer equipment	–	25% to 33⅓%

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

## Notes to the financial statements

at 30 June 2017

### 2. Accounting policies (continued)

#### *Tangible fixed assets (continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

#### *Provisions for liabilities*

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

#### *Leases*

##### *Company as a lessee*

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

#### *Stocks*

Stock is stated at the lower of cost and net realisable value. Cost comprises direct materials and other costs that have been incurred in bringing inventories to their current location and condition, including import duties and inward freight costs. Where necessary, provision is made for obsolete, slow moving and defective stock.

#### *Trade debtors*

Trade debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

#### *Income taxes*

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

## Notes to the financial statements

at 30 June 2017

### 2. Accounting policies (continued)

#### *Income taxes (continued)*

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

#### *Pensions*

The Damartex UK Limited group operates a defined benefit pension scheme, which requires contributions to be made to separately administered funds.

The company participates, along with one of its subsidiaries, in the Damartex UK Limited (DB) Pension Scheme for some employees. The company makes the contributions that are assessed across the group as a whole to separately administered funds. No service costs are incurred on the scheme. Changes in the value of assets and liabilities are recognised in the period in which they arise.

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

The Damartex UK Limited group also operates defined contribution schemes with the amount charged to the profit and loss account being the contributions payable in the year.

The company makes contributions on behalf of some employees to the Damartex UK Limited group defined contribution schemes with the amount charged to the profit and loss account being the contributions payable in the year.

### 3. Turnover

Turnover is attributable to the principal area of activity being that of mail order. Turnover, which is stated net of VAT, represents amounts receivable from third parties for goods and services provided in the normal course of business. Turnover includes the sales of merchandise, income from contributions to outbound handling charges and income relating to the provision of credit to customers. All activities are continuing.

An analysis by geographical area - Turnover is substantially all in the United Kingdom with the only significant export market being the USA where sales in the year of £2.4m (2016 – £2.3m).

## Notes to the financial statements

at 30 June 2017

### 3. Turnover (continued)

	2017 £000	2016 £000
Sale of goods	98,369	95,503
Interest income	5,238	5,647
	<u>103,607</u>	<u>101,150</u>

#### Revenue recognition

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

Revenue is recognised when goods are despatched and the risks and rewards of ownership have transferred to the buyer. Sales returns in the period are recognised as a deduction to revenue as incurred. Provision is made for outstanding returns not yet made at the period end. Accumulated experience (including historical returns rates) is used to estimate and provide for such returns. The provision is recorded as a reduction in revenue with a corresponding entry to debtors.

Customers can choose to pay for goods using their Damart personal account. Interest is charged on outstanding balances and is calculated daily. Interest and personal account administration charges are recognised at each customer statement date.

### 4. Operating Profit

This is stated after charging/(crediting):

	2017 £000	2016 £000
Auditors' remuneration	<u>38</u>	<u>37</u>
Amortisation of intangible fixed assets	81	248
Depreciation of tangible fixed assets	695	648
Net foreign currency exchange differences	(157)	129
Release of provision for onerous leases in the year	-	(61)
Cost of stocks recognised as an expense (included in cost of sales)	36,612	34,973
Including: - write down of stocks to net realisable value	1,087	636
Operating lease rentals - minimum lease payments	326	380
- sublease payments	<u>-</u>	<u>(15)</u>

# Notes to the financial statements

at 30 June 2017

## 5. Staff costs

(a) Staff costs	2017 £000	2016 £000
Wages and salaries	12,984	12,074
Social security costs	1,011	879
Other pension costs in respect of defined contribution schemes	521	531
	<u>14,516</u>	<u>13,484</u>

The average monthly number of employees (including executive directors) during the year was made up as follows:

	No.	No.
Mail order and retail	<u>454</u>	<u>509</u>

## (b) Directors' remuneration

	2017 £000	2016 £000
Directors' remuneration	<u>1,130</u>	<u>921</u>
Number of directors accruing benefits under:		
Defined benefit schemes	—	—
Defined contribution schemes	<u>4</u>	<u>4</u>
Number of directors who received shares in respect of qualifying services	5	—
Number of directors who exercised share options	<u>1</u>	<u>1</u>

Share-based payments are made by Damartex S.A. under the Damartex S.A. Stock-Options and Free Shares Plans using Damartex S.A. shares. The aggregate amount included in the total directors' remuneration amounted to £208,400 (£9,097). The cost was borne by Damartex S.A.

The requirements of IFRS2 and reduced disclosures requirements of FRS101 have not been applied as they are not considered to be material to the Financial Statements as a whole.

In respect of the highest paid director:

	2017 £000	2016 £000
Aggregate remuneration	<u>409</u>	<u>266</u>
Accrued pension at the end of the year	—	—
Accrued lump sum at the end of the year	<u>—</u>	<u>—</u>

The highest paid director exercised options to buy Damartex S.A. shares during the year under the Damartex S.A. group's Stock-Options Plans and received Damartex S.A. shares under the Damartex S.A. group's Free Shares Plans with a value of £151,085 (£9,097). The cost was borne by Damartex S.A.

## Notes to the financial statements

at 30 June 2017

### 6. Interest payable and similar charges

	2017 £000	2016 £000
Net interest on defined benefit liability	40	1
On inter-group loans	63	96
<b>Total interest expense</b>	<b>103</b>	<b>97</b>

### 7. Tax

#### (a) Tax charged in the income statement

	2017 £000	2016 £000
<b>Current income tax:</b>		
Current income tax charge	775	541
Amounts overprovided in previous years	—	(39)
<b>Total current income tax</b>	<b>775</b>	<b>502</b>

#### **Deferred tax:**

Origination and reversal of timing differences	35	278
<b>Total deferred tax (note 7(d))</b>	<b>35</b>	<b>278</b>
<b>Tax expense in the income statement</b>	<b>810</b>	<b>780</b>

#### (b) Tax relating to items charged or credited to other comprehensive income:

	2017 £000	2016 £000
<b>Deferred tax:</b>		
Actuarial losses/(gains) on defined benefit pension schemes	(10)	(242)
<b>Total deferred tax</b>	<b>(10)</b>	<b>(242)</b>
<b>Tax (credit)/expense in the statement of other comprehensive income</b>	<b>(10)</b>	<b>(242)</b>

## Notes to the financial statements

at 30 June 2017

### 7. Tax (continued)

#### (c) Reconciliation of the total tax charge

The tax expense in the income statement for the year differs from the standard rate of corporation tax in the UK of 19.75% (2016 – 20.00%). The differences are reconciled below:

	2017 £000	2016 £000
Accounting profit before income tax	3,846	3,640
Tax calculated at UK standard rate of corporation tax of 19.75% (2016 – 20.00%)	760	728
<i>Effects of:</i>		
Expenses not deductible for tax purposes	–	2
Other permanent differences	51	65
Change in tax rates	(1)	(15)
Total tax expense reported in the income statement	810	780

#### (d) Deferred tax

The deferred tax included in the company balance sheet is as follows:

<b>Deferred tax asset</b>	2017 £000	2016 £000
Pension costs	265	247
	265	247
<b>Deferred tax liability</b>	2017 £000	2016 £000
Accelerated capital allowances	(415)	(372)
	(415)	(372)
<b>Disclosed on the balance sheet</b>	2017 £000	2016 £000
Deferred tax asset	265	247
Deferred tax liability	(415)	(372)
Included in provisions for liabilities (note 16)	(150)	(125)
	£000	£000
<b>Deferred tax in the income statement</b>		
Pensions	(8)	1
FRS101 Marketing adjustment	–	168
Accelerated capital allowances	43	109
Deferred tax expense	35	278



## Notes to the financial statements

at 30 June 2017

### 7. Tax (continued)

*Including deferred tax on defined benefit pension liability/asset*

	<i>£000</i>
At 1 July 2016	(125)
Deferred tax charged in the income statement	(35)
Amounts relating to items charged or credited to other comprehensive income	10
At 30 June 2017	<u>(150)</u>

#### (e) Unrecognised tax losses

The company has tax losses arising in the UK of £1,152,000 relating to capital losses arising from old capital restructuring of subsidiaries that are available indefinitely against future capital gains. Deferred tax assets have not been recognised in respect of these losses as there is uncertainty over the recoverability.

#### (f) Dividends declared but not yet paid

There is no income tax consequence of dividends declared but not yet paid before the accounts signed.

### 8. Dividends paid and proposed

	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>
Declared and paid during the year:		
Final dividend for 2016 of £6.42 (2015: £6.55)	<u>2,284</u>	<u>2,330</u>
Dividends paid	<u>2,284</u>	<u>2,330</u>
<i>Approved by shareholders at the AGM:</i>		
Final dividend for 2017: £nil (2016: £6.42)	<u>—</u>	<u>2,284</u>

# Notes to the financial statements

at 30 June 2017

## 9. Intangible assets

	<i>Internally generated software £000</i>	<i>Other software £000</i>	<i>Total £000</i>
Cost:			
At 1 July 2016	1,275	986	2,261
Additions	346	-	346
Reclassification	-	(3)	(3)
At 30 June 2017	1,621	983	2,604
Depreciation:			
At 1 July 2016	1,010	915	1,925
Charge for the year	23	58	81
Reclassification	-	9	9
At 30 June 2017	1,033	982	2,015
Net book value:			
At 30 June 2017	588	1	589
At 1 July 2016	265	71	336

Amortisation is provided on all software whether internally generated or not, on a straight-line basis over its expected useful life as follows:

Software – 20% to 25%

Amortisation is included on the Income Statement within 'Other operating expenses'.

## 10. Tangible fixed assets

	<i>Freehold land and buildings £000</i>	<i>Plant, machinery, fixtures and vehicles £000</i>	<i>Total £000</i>
Cost:			
At 1 July 2016	8,005	12,928	20,933
Additions	916	520	1,436
Reclassification	1,935	(1,935)	0
At 30 June 2017	10,856	11,513	22,369
Depreciation:			
At 1 July 2016	4,384	11,555	15,939
Charge for the year	406	289	695
Reclassification	1,543	(1,543)	0
At 30 June 2017	6,333	10,301	16,634
Net book value:			
At 30 June 2017	4,523	1,212	5,735
At 1 July 2016	3,621	1,373	4,994

## Notes to the financial statements

at 30 June 2017

### 10. Tangible fixed assets (continued)

The table above shows a reclassification of assets. During the year an exercise was undertaken to bring the historic classification of tangible fixed assets into line with Damartex S.A. group standards. This was purely a reporting alignment and there was no impact on asset lives or depreciation rates.

### 11. Investments – non-current

#### *Interests in group undertakings*

<i>Name of company</i>	<i>Description of shares held</i>	<i>Held by Group</i>	<i>Proportion of nominal value of issued shares Company</i>
SHC Limited	Ordinary £1	100%	100%

The principal business activity of the trading subsidiary, SHC Limited, is that of operating retail outlets branded as 'Damart'. The registered office address is the same as Damartex UK Limited.

### 12. Stocks

	<i>2017 £000</i>	<i>2016 £000</i>
Finished goods and goods for resale	<u>16,652</u>	<u>14,358</u>

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

### 13. Debtors

	<i>2017 £000</i>	<i>2016 £000</i>
Trade debtors	19,733	19,364
Amounts owed by group undertakings	77	51
Other debtors	11	4
Prepayments and accrued income	<u>1,146</u>	<u>736</u>
	<u>20,967</u>	<u>20,155</u>

## Notes to the financial statements

at 30 June 2017

### 14. Creditors: amounts falling due within one year

	2017	2016
	£000	£000
Bank loans and overdrafts	397	7
Trade creditors	8,868	9,196
Amounts owed to group undertakings	5,455	4,399
Current corporation tax	219	130
Other taxation and social security costs	2,080	1,917
Other creditors	731	707
Accruals and deferred income	4,407	3,769
	<u>22,157</u>	<u>20,125</u>

### 15. Creditors: amounts falling due after more than one year

	2017	2016
	£000	£000
Amounts owed to group undertakings	<u>4,828</u>	<u>4,947</u>

Amounts owed to group are expected to be settled within the next 2 to 5 years.

### 16. Provisions for liabilities

	<i>Deferred tax</i> <i>(Note 7(d))</i>
	£000
At 1 July 2016	125
Arising during the year	25
Unused and released in the year	-
Amount utilised	-
At 30 June 2017	<u>150</u>

## Notes to the financial statements

at 30 June 2017

### 17. Authorised, Issued and called up share capital

<i>Authorised</i>	<i>No.</i>	<i>2017</i> <i>£000</i>	<i>No.</i>	<i>2016</i> <i>£000</i>
Redeemable shares of £1 each	38,136	38	38,136	38
B Redeemable shares of £1 each	400,000	400	400,000	400
Ordinary shares of £20 each	113,000	2,260	113,000	2,260
Ordinary 1 shares of £20 each	242,700	4,854	242,700	4,854
		<u>7,552</u>		<u>7,552</u>
<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>£000</i>	<i>No.</i>	<i>£000</i>
Ordinary shares of £20 each	113,000	2,260	113,000	2,260
Ordinary 1 shares of £20 each	242,700	4,854	242,700	4,854
		<u>7,114</u>		<u>7,114</u>

#### ***Rights of each class of shares***

Dividends shall be distributed to holders of Redeemable, Ordinary and Ordinary 1 shares pari passu. Holders of B Redeemable shares are not entitled to receive any dividends.

On a return of assets on liquidation, the assets of the Company shall be distributed amongst holders of all share classes pari passu.

All shares carry one vote each at general meetings.

## Notes to the financial statements

at 30 June 2017

### 18. Reserves

#### **Equity share capital**

The balance classified as equity share capital includes the total net proceeds at nominal value on issue of the Company's equity share capital, comprising £20 ordinary shares.

#### **Share premium account**

Share premium represents the excess of proceeds received over the nominal value of new shares issued.

#### **Capital redemption reserve**

Arising from the purchase of own share capital.

### 19. Pensions

The group operates The Damartex UK Limited (DB) Pension Scheme (the 'Scheme'), which is a final salary defined benefit pension scheme in the UK. The Scheme is an HMRC registered pension scheme and is subject to standard UK pensions and tax law. Details of the benefits provided by the Scheme are set out in the Trust Deed and Rules dated 7 April 2009, as amended by the deed dated 28 September 2012 and 10 January 2017. Benefit accrual ceased with effect from 1 October 2012. Those members who were active at that date became deferred pensioners from that date.

The disclosures below are based on calculations carried out at 30 June 2017 by a qualified independent actuary.

The Scheme's assets are held in a separate trustee-administered fund to meet long-term pension liabilities to beneficiaries. The Trustees of the Scheme are required to act in the best interest of the beneficiaries. The appointment of Trustees is determined by the trust documentation.

The Trustees of the Scheme invest the assets in line with the Statement of Investment Principles. The Statement of Investment Principles has been established taking into consideration the liabilities of the Scheme and the investment risk that the Trustees are willing to accept.

Under the Scheme Funding regime introduced by the Pensions Act 2004, the Trustees are required to carry out regular scheme funding valuations of the Scheme and establish a schedule of contributions and a recovery plan when there is a shortfall in the Scheme. The recovery plan, if any, details the amount and timing of the contributions required to eliminate any shortfall in the Scheme. Scheme funding valuations are carried out at least every three years. Interim valuations are produced annually in years where a full scheme funding valuation is not being completed.

At each scheme funding valuation the present value of the contributions detailed in the then current recovery plan, if any, is compared with any shortfall revealed. Where the contributions under a current recovery plan are no longer sufficient to remove the shortfall by the end of period specified in the recovery plan, extra contributions will need to be agreed between the Trustees and the principal employer. Options include increasing contributions due from the principal employer, extending the recovery period with additional contributions paid after the expiry of the current recovery period or a combination of the two. The affordability to the principal employer of any increase in contributions is a primary factor in the agreement of any new recovery plan.

Where the contributions in the then current recovery plan, if any, are more than sufficient to remove the shortfall by the end of the recovery period, options include reducing contributions due, keeping the recovery period the same, or shortening the recovery period.

There was a deficit of £2,500,000 as at 30 September 2016, the date of the last Scheme Funding Assessment, and a recovery plan was agreed with the employer making deficit reduction contributions of £250,000 per annum for 10 years. The first payment of £250,000 was made in September 2017 and payments are now being made in equal monthly instalments.

# Notes to the financial statements

at 30 June 2017

## 19. Pensions (continued)

At 30 June 2017, the IAS19 valuation of the scheme showed a deficit of £1,400,000 (2016: deficit of £1,309,000).

The assets and liabilities of the schemes at 30 June 2017 are:

	2017 £000	2016 £000	2015 £000
<i>Scheme assets at fair value</i>			
Equities	7,614	6,176	5,362
Gilts and Bonds	17,538	16,628	14,155
Other	48	950	1,930
Fair value of scheme assets	25,200	23,754	21,447
Present value of scheme liabilities	(26,600)	(25,063)	(21,481)
Defined benefit pension plan surplus/(deficit)	(1,400)	(1,309)	(34)

The amounts recognised in the Income Statement and in the Statement of Comprehensive Income for the year are analysed as follows:

### Recognised in the Income Statement

	2017 £000	2016 £000
Net interest on defined benefit liability	40	1

### Taken to the Statement of Comprehensive Income

	2017 £000	2016 £000
Return on plan assets (excluding amounts included in net interest expense)	1,738	2,033
Actuarial changes arising from changes in demographic assumptions	-	(287)
Actuarial changes arising from changes in financial assumptions	(1,789)	(3,020)
Recognised in the Statement of Comprehensive Income	(51)	(1,274)

## Notes to the financial statements

at 30 June 2017

### 19. Pensions (continued)

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	2017	2016
	£000	£000
Opening present value of defined benefit obligation	25,063	21,481
Interest on benefit obligation	680	807
Actuarial losses	1,789	3,307
Benefits paid	(932)	(532)
Closing defined benefit obligation	<u>26,600</u>	<u>25,063</u>

Changes in the fair value of plan assets are analysed as follows:

	2017	2016
	£000	£000
Opening fair value of Scheme assets	23,754	21,447
Interest income on plan assets	640	806
Actuarial gains	1,738	2,033
Contributions by employer	-	-
Benefits paid	(932)	(532)
Closing fair value of Scheme assets	<u>25,200</u>	<u>23,754</u>

The actuarial valuation of the Scheme as at 30 September 2016 was updated to take account of the requirements of IAS19 in order to assess the liabilities of the scheme at 30 June 2017.

The principal actuarial assumptions at the balance sheet date were:

	2017	2016	2015
	%	%	%
Rate of salary increases	n/a	n/a	n/a
Rate of increase in pensions payment	3.20	2.85	3.20
Discount rate	2.70	2.75	3.80
Inflation assumption	3.40	2.90	3.30
Mortality rates	S2PA, YoB, CMI 2015 1.0% long-term trend tables	S1PA, YoB, CMI 2015 1.0% long-term trend tables	S1PA, YoB, CMI 2012 1.0% long-term trend tables
Post retirement mortality (in years)			
Current pensioners at 65 - male	22.0	21.9	22.4
Current pensioners at 65 - female	24.0	23.9	24.6
Future pensioners at 65 - male	23.3	23.2	23.7
Future pensioners at 65 - female	25.5	25.4	26.2



## Notes to the financial statements

at 30 June 2017

### 19. Pensions (continued)

The discount rate is based on published indices for 15 year AA bonds. The assumptions for inflation and for increases in pensions are based on the yield gap between long-term index-linked and long-term fixed interest gilt securities. The post retirement mortality assumptions allow for expected increases in longevity.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

<i>Assumption</i>	<i>Change in assumption</i>	<i>Impact on scheme liabilities</i>
Discount rate	Increase/decrease by 0.25%	Decrease/(increase) by 4.2%/(4.1%)
Inflation assumption	Increase/decrease by 0.25%	(Increase)/decrease by (3.2%)/3.4%
Post retirement mortality	Increase by 1 year	Increase by 3.0%

The level of contributions is based on the expected future cash flows of the defined benefit scheme. The Company estimates the present value of the duration of scheme liabilities on average fall due over 19 years.

The Company has registered a floating charge, granted to the Scheme Trustees, at Companies House over its customers' Consumer Credit balances. The charge, which has a maximum value of £2.5m, was created to provide security to the Trustees of the scheme in addition to any schedule of deficit contributions put in place following triennial scheme funding valuations.

### 20. Other financial commitments

The Company has entered into commercial leases on items of machinery, motor vehicles and previously on retail property units. These leases have duration of between one and ten years. There are no restrictions placed upon the lessee by entering into these leases.

At 30 June 2016, future minimum rentals payable under non-cancellable operating leases are as follows:

	<i>2017</i>		<i>2016</i>	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
Within one year	–	130	1	77
In two to five years	–	350	–	503
Over five years	–	–	–	–
	<u>–</u>	<u>480</u>	<u>1</u>	<u>580</u>

The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 30 June 2017 is £nil (2016: £555).

## Notes to the financial statements

at 30 June 2017

### 21. Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. The company has taken advantage of the disclosure exemptions under FRS101 from disclosing transactions with wholly owned related parties that are part of the Damartex SA group. Trading balances outstanding at 30 June with related parties, are as follows:

	2017 £000	2016 £000
Amounts owing to parent undertakings	(4,828)	(4,947)
Amounts owing from parent undertakings		–
Amounts owing to fellow subsidiary undertakings	(5,455)	(4,399)
Amounts owing from fellow subsidiary undertakings	77	51

#### *Terms and conditions of transactions with related parties*

Sales and purchases between related parties are made on an arm's length basis. Balances with fellow subsidiary entities are placed on intercompany accounts with an expectation of payment within 60 days, with the exception of the direct subsidiary SHC Limited where there is no specified credit period. Outstanding balances are unsecured and interest free.

The amounts owing to the parent undertaking represent a long term loan with no expectation for immediate repayment. Interest is payable on the loan at LIBOR +0.5%.

The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 30 June 2017, the Company has not made any provision for doubtful debts relating to amounts owed by related parties.

### 22. Ultimate parent undertaking and controlling party

The directors are of the opinion that the immediate parent undertaking is Cofisel AG, which is incorporated in Switzerland.

Cofisel AG and Damartex UK Limited are part of the group Damartex SA, which is incorporated in France. Copies of Damartex SA financial statements which include the company can be obtained from 25, Avenue de la Fosse-aux-chênes, 59100 Roubaix, France.

The ultimate parent undertaking and controlling party is JPJ-D, which is incorporated in France.