Reliance Brands Holding UK Limited
Financial Statements
for the year ended 31st December, 2019

Independent Auditor's Report

To the members of Reliance Brands Holding UK Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Reliance Brands Holding UK Limited. (the 'parent company') and its subsidiaries (the 'group') for the period ended 31 December 2019, which comprise the consolidated and company statement of profit and loss and other comprehensive income, consolidated and company balance sheets, and the consolidated and company statement of changes in equity, consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this 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 the directors' report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report

Matter on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 for the financial statements

As explained more fully in the directors' responsibilities statement, 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Devender Arora ACA (Senior Statutory Auditor)

For and on behalf of PBG Associates Limited
Chartered Accountants and Statutory Auditors
65 Delamare Road
Hayes, Middx
UB4 0NN

24 April 2020

Statement of profit and loss and other comprehensive income for period ended 31 December 2019

	Note	**Consolidated 2019 £000**	**Company 2019 £000**
Gross transaction value	*2*	**32,811**	**-**
Revenue	*3*	**29,698**	**-**
Cost of sales		**(12,264)**	**-**
Gross profit		**17,434**	**-**
Distribution expenses		**(8,558)**	**-**
Administrative expenses		**(3,240)**	**(12)**
Other income		**533**	**-**
Operating profit/(loss)	*4*	**6,169**	**(12)**
EBITDA	*2*	**8,233**	**-**
Depreciation, amortisation and impairment	*9,10*	**(2,064)**	**-**
		6,169	**(12)**
Financial income	*6*	**19**	**-**
Financial expenses	*6*	**(2,878)**	**(584)**
Net financing expense		**(2,859)**	**(584)**
Profit/(Loss) before tax		**3,310**	**(596)**
Taxation	*7*	**(56)**	**113**
Profit/(Loss) for the period		**3,254**	**(483)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		**-**	**-**
Other comprehensive income for the period, net of income tax		**-**	**-**
Total comprehensive income		**-**	**-**
Profit/(Loss) attributable to:			
Equity holders of the parent		**3,254**	
Non-controlling interests		**-**	
		3,254	
Total comprehensive income attributable to:			
Equity holders of the parent		**3,254**	
Non-controlling interests		**-**	
		3,254	

There are no recognised gains or losses other than those passing through the statement of profit and loss and other comprehensive income.

The notes on pages 8 to 25 form part of these financial statements.

All amounts relate to continuing operations.

Balance sheet at 31 December 2019

	Note	Consolidated 2019 £000	Company 2019 £000
Non-current assets			
Property, plant and equipment	*9*	**107,648**	-
Intangible assets	*10*	**74,357**	-
Investment in subsidiaries	*11*	**-**	**34,231**
		182,005	**34,231**
Current assets			
Inventories	*13*	**10,489**	**-**
Trade and other receivables	*14*	**5,059**	**31,324**
Cash and cash equivalents	*15*	**7,006**	**3,999**
		22,554	**35,323**
Total assets		**204,559**	**69,554**
Current liabilities			
Interest-bearing loans and borrowings	*16*	**(161)**	**-**
Trade and other payables	*17*	**(17,539)**	**(2,611)**
Lease Liabilities	*21*	**(988)**	**-**
		(18,688)	**(2,611)**
Non-current liabilities			
Interest-bearing loans and borrowings	*16*	**(33,712)**	**(33,672)**
Other payables		**(525)**	-
Lease Liabilities	*21*	**(106,705)**	-
Provisions	*18*	**(3,245)**	-
Deferred tax liabilities	*12*	**(4,304)**	-
		(148,491)	**(33,672)**
Total liabilities		**(167,179)**	**(36,283)**
Net assets		**37,380**	**33,271**
Equity attributable to equity holders of the parent			
Share capital	*19*	**35,940**	**35,940**
Translation reserve		**372**	-
Retained earnings		**1,068**	**(2,669)**
		37,380	**33,271**
Equity attributable to non-controlling interests		**-**	-
Total equity		**37,380**	**33,271**

The notes on pages 8 to 25 form part of these financial statements.

These financial statements were approved by the Board of Directors on 24 April 2020 and were signed on its behalf by:

Saji Varghese
Director

Company registered number: 12071632

Statement of changes in equity

Consolidated statement of changes in equity

	Share capital	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 August 2019	-	-	-	-	-	-
Total comprehensive income for the period						
Profit for the period	-	-	3,254	3,254	-	3,254
Other comprehensive expense	-	-	-	-	-	-
Total comprehensive income for the period		-	3,254	3,254	-	3,254
Transactions with owners, recorded directly in equity						
Capital contribution	35,940	372	(2,186)	34,126		34,126
Balance at 31 December 2019	**35,940**	**372**	**1,068**	37,380	-	**37,380**

The notes on pages 8 to 25 form part of these financial statements.

Company statement of changes in equity

	Share capital	Retained earnings	Total equity
	£000	**£000**	**£000**
Balance at 1 August 2019	-	-	-
Total comprehensive income for the period			
Loss for the period	-	(483)	(483)
Total comprehensive loss for the period	-	(483)	(483)
Capital contribution	35,940	(2,186)	33,754
Balance at 31 December 2019	**35,940**	**(2,669)**	**33,271**

The notes on pages 8 to 25 form part of these financial statements.

Cash flow statement for year ended 31 December 2019

	Note	**Consolidated 2019 £000**	**Company 2019 £000**
Cash flows from operating activities			
Profit/(Loss) for the period		**3,254**	**(483)**
Adjustments for:			
Depreciation and amortisation	*9,10*	**2,064**	**-**
Financial income	*6*	**(19)**	**-**
Financial expense	*6*	**2,878**	**584**
Taxation	*7*	**56**	**(113)**
		8,233	**(12)**
(Increase) in trade and other receivables		**(5,058)**	**(31,324)**
(Increase) in inventories		**(10,489)**	**-**
Increase in trade and other payables		**1,67,610**	**36,396**
		1,60,296	**5,060**
Tax paid		**-**	**-**
Net cash from/ (used in) operating activities		**1,60,296**	**5,060**
Cash flows from investing activities			
Acquisition of property, plant and equipment	*9*	**(1,09,604)**	**-**
Investment in subsidiaries	*11*	**-**	**(34,231)**
Acquisition of other intangible assets	*10*	**(74,464)**	**-**
Net cash used in investing activities		**(1,84,068)**	**(34,231)**
Cash flows from financing activities			
Capital contribution received		**34,126**	**33,754**
Payment of finance lease liabilities		**(489)**	**-**
Net financial expense paid		**(2,859)**	**(584)**
Net cash (used in)/from financing activities		**30,778**	**33,170**
Net decrease in cash and cash equivalents		**7,006**	**3,999**
Cash and cash equivalents at start of the period		**-**	**-**
Effect of exchange rate fluctuations on cash held		**-**	**-**
Cash and cash equivalents at end of period	*15*	**7,006**	**3,999**

The notes on pages 8 to 25 form part of these financial statements.

Notes to the financial statements

1 ACCOUNTING POLICIES

Reliance Brands Holding UK Limited (the "Company") is a company incorporated and domiciled in the UK. The registered number is 12071632 and the registered address is 105 (8th Floor) Wigmore Street, London, United Kingdom, W1U 1QY

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group").

The group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements.

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 24.

1.1. Measurement convention

The financial statements are prepared on the historical cost basis except where IFRSs require an alternative treatment.

1.2. Going concern

The Directors expect the retail climate through 2020 to remain uncertain and will continue to present an unpredictable trading environment. However, the Directors believe the continuous implementation of the 5-year plan strategy and the subsequent positive results delivered in 2020 to date has provided some protection against potential future sales downturn. The expansion into our International Franchise market also continues to diversify our risk and reliance on the UK market.

Financial forecasts, including sensitivities, for the year have been prepared using conservative sales levels and cost planning accordingly has been aligned to those sales estimates. The group has made considerable effort to improve cost base management, reduce cash levels tied up in working capital by managing stock orders on a just in time basis, and ease pressures on cash flow by managing supplier expectations.

The Directors, after considering the financial forecasts, appropriate sensitivities, current trading and available facilities expect the group and therefore the company to have adequate resources to continue in operational existence for the foreseeable future. The Directors also anticipate that the existing funding facilities to remain in place.

As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements they have no reason to believe that it will not do so.

Based on all of the evidence available the Directors continue to adopt the going concern basis in preparing the financial statements.

1.3. Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

1.4. Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial information is presented in pounds sterling which are the Company's functional and Group's presentational currency.

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated and company statement of profit and loss.

Notes to the financial statements

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

1.5. Classification of financial instruments issued by the Group

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

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

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

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

1.6. Non-derivative financial instruments

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

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.7. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and

Notes to the financial statements

the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Operating lease payments are accounted for as described at 1.14 below.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Leasehold property — Shorter of lease of premises or 10 years
- Fixtures and fittings — 3 -5 years
- Computer equipment — 3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.8. Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Other intangible assets

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

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

Amortisation

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

- Hamleys brand — Indefinite life
- Other branding — 4 years
- Franchise agreements — 27 years (Note 10)
- Non-compete agreements — 27 years (Note 10)
- Favourable lease — 10 years (Note 10)
- Trademarks — 5 years
- Concession agreement — 9 years (Note 10)
- Computer software — 3 years

1.9. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition.

Where necessary, a provision is made to reduce the cost to no more than net realisable value having regard to the nature and condition of inventory as well as anticipated utilisation and saleability.

1.10. Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Notes to the financial statements

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.11. Employee benefits

Defined contribution plans

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

Short-term benefits

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

1.12. Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation.

Notes to the financial statements

1.13. Revenue

Revenue comprises the fair value of goods sold to external customers and franchisees, net of value added tax and promotional discounts. Revenue is recognised on the sale of goods when the significant risks and rewards of ownership of the goods have passed to the customer and the amount of revenue can be measured reliably. The significant risks and rewards of ownership are deemed to have been passed when sold over the counter in store, when despatched for online sales and when despatched to franchisees. Territory fees are spread over the term of the initial contract period. Store opening fees paid by franchisees are recognised at the point the store opens. Franchise royalties are based upon a percentage of reported sales and are recognised on a monthly basis when earned.

1.14. Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into an operating lease such incentives are recognised as a liability. Lease incentives are recognised as a reduction of rental expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the lease are consumed.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing income and expenses

Financing expenses comprise of interest payable on shareholder loans and finance leases and the unwinding of the discount on provisions. Financing income comprise interest receivable on funds invested.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

1.15. Taxation

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.16. Updates to IFRS

New and revised standards that are effective for annual years beginning on or after 1 January 2019

IFRS 16 changes the recognition, measurement, presentation and disclosure of leases. In particular it requires lessees to record all leases on the balance sheet with exemptions available for low value and short-term leases. At the commencement of a lease, a lessee recognises lease payments (lease liability) and an asset representing the right to use the asset during the lease term (leased asset). Lessees subsequently reduce the lease liability when paid and recognise depreciation on the leased asset. A lease liability is remeasured upon the occurrence of certain events such as a change in the lease term or a change in an index or

Notes to the financial statements

rate used to determine lease payments. The remeasurement normally also adjusts the leased asset. The standard has no impact on the actual cash flows of a group. However the standard requires the capitalisation, and subsequent depreciation, of costs that were previously expensed as paid which impacts disclosures of cash flows within the cash flow statement. The amounts previously expensed as operating cash outflows are instead capitalised and presented as financing cash outflows.

The Group has adopted IFRS 16 applying the modified retrospective approach, and accordingly prior year results have not been restated.

2 NON-IFRS FINANCIAL INFORMATION

Gross transaction value

	2019 £000
Gross transaction value	**32,811**

Revenue from concessions is required to be shown on a net basis, being the commission received rather than the gross value achieved by concessionaires on sales. The Directors believe that gross transactional value, which presents revenue on a gross basis before adjusting for concessions, represents a good guide to the value of the overall activity of the Group. Statutory turnover includes franchise royalty income and territory fees – these amounts are excluded from gross transactional value.

EBITDA

Earnings before interest, tax, depreciation, amortisation and impairments ("EBITDA") has been presented as in the opinion of the Directors, this measure of the group's performance provides useful additional disclosure. It is not intended to be a substitute for, or superior to, GAAP measurements of profit.

Notes to the financial statements

3 REVENUE

	2019 £000
Sale of goods including goods to franchisees	**25,705**
Franchise income	**3,993**
Total revenues	**29,698**

Franchising revenues include royalties, territory and store opening support fees.

4 EXPENSES AND AUDITORS' REMUNERATION

Included in operating profit/loss are the following:

	Consolidated 2019 £000	Company 2019 £000
Rentals under operating leases:		
Hire of plant and machinery	**25**	**-**
Capital contribution and rent free period unwind	**(208)**	**-**
Depreciation/amortisation charge for the period		
Depreciation charge - owned plant, property and equipment	**683**	**-**
Depreciation charge - right of use assets	**1,273**	**-**
Amortisation charge	**108**	**-**
Loss allowance on trade receivable	**(304)**	**-**
Net gains on foreign currency	**72**	**-**

Auditor's remuneration:

	2019 £000	2019 £000
Audit of these financial statements	**47**	**12**

5 STAFF NUMBERS AND COSTS

The average number of persons employed by the group (including Directors) during the period, analysed by category, was as follows:

	Number of employees 2019
Selling and distribution	267
Administration	78
	345

The aggregate payroll costs of these persons were as follows:

	2019 £000
Wages and salaries	**5,110**
Social security costs	**255**
Contributions to defined contribution plans	**98**
	5,463

Notes to the financial statements

6 FINANCE INCOME AND EXPENSE

Recognised in profit or loss	**Consolidated 2019 £000**	**Company 2019 £000**
Finance income	-	-
Other interest income	19	-
Total finance income	19	-
Finance expense		
Interest expense on bank loan and overdrafts	58	-
Interest expense on shareholder loans	584	584
Interest expense on leases	2,236	-
Total finance expense	2,878	584

7 TAXATION

Recognised in the income statement	**Consolidated 2019 £000**	**Company 2019 £000**
Current tax expense		
Corporation tax charge for the period	-	(113)
Foreign corporation tax charge for the period	73	-
Double tax relief	(73)	-
Current tax expense/(credit)	-	(113)
Deferred tax expense		
Origination and reversal of temporary differences	5	-
Adjustment for prior periods	51	-
Deferred tax credit	56	-
Total tax (credit) / expense	56	(113)

The tax charge is reconciled with the standard rates of UK corporation tax as follows:

	2019 £000	**2019 £000**
(Loss)/profit for the period	3,254	(483)
Total tax (credit)/expense	56	(113)
Profit excluding taxation	3,310	(596)
Tax using the UK corporation tax rate of 19.00%	629	(113)
Deferred tax not recognised	6	-
Loss carried back	6	-
Losses utilised previously not recognised	(49)	-
Foreign Tax	(73)	-
Under / (over) provided in prior period	(463)	-
Total tax credit	56	(113)

8 EXCEPTIONAL ITEMS

There are no exceptional items in the period 2019.

Notes to the financial statements

9 PROPERTY, PLANT AND EQUIPMENT

Consolidated Group

	Properties leased for own use £000	Leasehold land and buildings £000	Fixtures and fittings £000	Computer equipment £000	Total £000
Cost					
Balance at 1 August 2019	107,532	2,687	28,490	2,985	141,694
Effect of movements in foreign exchange	-	-	-	-	-
Additions	-	-	-	-	-
Balance at 31 December 2019	107,532	2,687	28,490	2,985	141,694
Depreciation and impairment					
Balance at 1 August 2019	-	-	-	-	-
Effect of movements in foreign exchange	-	-	-	-	-
Depreciation charge for the period	3,267	1,568	26,451	2,760	34,046
Impairment charge for the period	-	-	-	-	-
Balance at 31 December 2019	3,267	1,568	26,451	2,760	34,046
Net book value					
At 31 December 2019	**104,265**	**1,119**	**2,039**	**225**	**107,648**

10 INTANGIBLE ASSETS

Consolidated Group

	Goodwill £000	Computer software £000	Brand £000	Other £000	Total £000
Cost					
Balance at 1 August 2019	38,697	4,695	34,813	3,662	81,867
Effect of movements in foreign exchange	-	-	-	-	-
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Balance at 31 December 2019	38,697	4,695	34,813	3,662	81,867
Amortisation and impairment					
Balance at 1 August 2019	-	-	-	-	-
Effect of movements in foreign exchange	-	-	-	-	-
Amortisation charge for the period	-	3,972	-	3,538	7,510
Impairment charge for the period	-	-	-	-	-
Balance at 31 December 2019	-	3,972	-	3,538	7,510
Net book value					
At 31 December 2019	**38,697**	**723**	**34,813**	**124**	**74,357**

Included is the Hamleys brand valued at £34.8 million which has an indefinite life. This indefinite life is supported by Hamleys being a well-established and reputable brand and is the world's oldest toy store. There are no known legal or contractual provisions that would limit the life of the brand and it is protected by trademarks that can be renewed indefinitely.

Notes to the financial statements

Amortisation charge

All amortisation is recognised in administrative expenses in the consolidated statement of profit and loss and other comprehensive income.

Impairment testing

Goodwill and indefinite life intangible assets are not amortised, but tested annually for impairment on the basis of value in use calculations using discounted cash flows. The group considers there to be one CGU, being the UK business.

The calculated value in use exceeded the carrying value of goodwill and indefinite life intangible assets and no further sensitivity calculations were necessary to conclude there was no impairment. However, a combination of adverse changes in assumptions (such as forecast revenue growth) and other variables (such as discount rates), could result in an impairment in future years.

11 INVESTMENTS IN SUBSIDIARIES

Company

	2019 £000
Cost and net book value at beginning and end of period	34,231

The Group and Company have the following investments in subsidiaries:

Company	Country of incorporation	Principal activity	Class of shares held	Ownership 2019
Hamleys Global Holdings Limited	United Kingdom	Holding Company	Ordinary	100%
The Hamleys Group Limited*	United Kingdom	Holding Company	Ordinary	100%
Hamleys of London Limited*	United Kingdom	Toy Retailing	Ordinary	100%
Hamleys (Franchising) Limited*	United Kingdom	Franchise Company	Ordinary	100%
Scrumpalicious Limited*	United Kingdom	Retailing	Ordinary	100%
Luvley Limited*	United Kingdom	Retailing	Ordinary	100%
Hamleys Asia Limited*	Hong Kong	Import Company	Ordinary	100%
Hamleys Toys (Ireland) Limited*ǂ	Ireland	Toy Retailing	Ordinary	100%

* = indirectly held investments ǂ = Companies ceased trading during the year.

Subsidiaries

For the 31 December 2019 financial period end, the Group has consolidated the financial position as at 31 December 2019 and has consolidated results from 01 August 2019 to 31 Dececember 2019 of these subsidiaries.

12 DEFERRED TAX ASSETS AND LIABILITIES

Consolidated Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2019 £000	Liabilities 2019 £000
Property, plant and equipment	845	-
Intangible assets	-	(6,227)
Other temporary differences	125	-
Losses	952	-
Tax assets / (liabilities)	1,922	(6,227)
Net of tax assets/ (liabilities)	(1,922)	1,923
Net tax assets/(liabilities)	-	(4,304)

Notes to the financial statements

Movement in deferred tax during the year

	On acquisition	Recognised in income	2019
	£000	£000	£000
Property, plant and equipment	873	(27)	846
Intangible assets	(6,176)	(51)	(6,227)
Other temporary differences	129	(4)	125
Losses	983	(31)	952
	(4,191)	(113)	(4,304)

13 INVENTORIES

Consolidated Group

	2019
	£000
Goods purchased for resale	10,489

All inventories are expected to be sold within 12 months.

14 TRADE AND OTHER RECEIVABLES

	Consolidated	Company
	2019	2019
	£000	£000
Trade receivables	1,805	-
Amounts owed from group companies	-	31,324
Other receivables	1,010	-
Prepayments	1,881	-
Tax receivable	80	-
Accruals	283	-
	5,059	31,324

Consolidated Group

Ageing of trade receivables (which are included in trade and other receivables), based on invoice date and net of allowance of doubtful debts, is as follows:

	2019
	£000
Within 30 days	1,019
31-60 days	560
61-121 days	189
121+ days	37
	1,805

Notes to the financial statements

The movement in the allowance for impairment in respect of trade receivables during the period was as follows:

	2019 £000
Opening balance	-
Impairment loss recognised	53
Closing balance	53

The allowance account for trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

15 CASH AND CASH EQUIVALENTS/BANK OVERDRAFTS

	Consolidated 2019 £000	Company 2019 £000
Cash and cash equivalents per balance sheet	7,006	3,999
Cash and cash equivalents per cash flow statement	7,006	3,999

16 OTHER INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 20.

	Consolidated 2019 £000	Company 2019 £000
Non-current liabilities		
Finance lease liabilities	40	-
Unsecured shareholder loans (ultimate parent undertaking)	33,672	33,672
	33,712	33,672
Current liabilities		
Current portion of finance lease liabilities	161	-
	161	-

Company and Consolidated Group

Terms and debt repayment schedule

	Currency £000	Principal	Interest margin
Shareholder loan 1	GBP	33,672	LIBOR + 3%

Shareholder Loan 1 totals £33,672 thousand. The loan accrued interest at LIBOR + 300 basis points.

Notes to the financial statements

Consolidated Group

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments	Interest	Principal
	2019	2019	2019
	£000	£000	£000
Less than one year	171	(10)	161
Between one and five years	41	(1)	40
More than five years	-	-	-
	212	(11)	201

17 TRADE AND OTHER PAYABLES

	Consolidated	Company
	2019	2019
	£000	£000
Current		
Trade payables	6,320	-
Other payables	128	-
Amounts owed to group companies	2,015	2,015
Tax payable	70	-
Other tax and social security	889	-
Deferred income	4,432	-
Accruals	3,685	596
	17,539	2,611
Non-current		
Accruals and deferred income	-	-

Included within accruals and deferred income, both current and non-current are lease incentives and capital contributions that are being spread over the life of the lease and deferred income in respect of territory fees which are being recognised over the life of the initial contract.

18 PROVISIONS

Consolidated Group

	2019
	£000
Balance at beginning of period	-
Provisions made during the period	3,245
Provisions used during the period	-
Balance at end of period	3,245
Non-current	-
Current	3,245
	3,245

Much of the provision, being £1,404,000 relates to an onerous lease for certain land and buildings. The provision represents the director’s best estimate of the obligations at each reporting date.

Notes to the financial statements

19 SHARE CAPITAL

	2019 £000
Allotted, called up and fully paid	
35,940,100 ordinary share of £1.00 each	**35,940**
	35,940

The reconciliation between the opening and closing balances of each component of the Company and Group's consolidated equity is set out in the Statement of Changes in Equity.

A description of the nature and purpose of each reserve is given below:

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

20 FINANCIAL INSTRUMENTS

Financial risk management

Senior management and the Directors have overall responsibility for the oversight of the Group's risk management framework. Senior management and Directors review and manage risk on an ad hoc basis when required through specific consideration of transactions. When identified, agreed actions are taken to mitigate these risks.

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligation and arises principally from the Group's receivables from franchisees.

The Group has no significant concentrations of credit risk. The trade receivables balance is spread across a large number of different franchisees. The Group has policies in place to ensure that agreements are made with franchisees with an appropriate credit history. The Group only sells to franchisees that are credit-worthy and mitigates risk in certain markets by bank guarantees. The Group monitors the credit-worthiness of counterparties using publicly available information. As a result, the Group's exposure to bad debts is not significant and default rates have historically been very low. Sales to retail customers are made in cash or via major credit cards.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due by ensuring that there is sufficient cash or working capital facilities to meet the Group's cash requirements.

The risk is measured by review of forecast liquidity each month to determine whether there are sufficient credit facilities to meet forecast requirements. Cash flow forecasts are submitted monthly to the Directors. These continue to demonstrate the strong cash generating ability of the business and its ability to operate within existing agreed facilities. For further details of the Group's borrowings, see Note 16.

All short term trade and other payables, accruals and borrowings mature within one year or less. The carrying value of all financial liabilities due in less than one year is equal to their contractual undiscounted cash flows.

The maturity profile of the contractual undiscounted cash flows of the Company and Group's financial liabilities is as follows:

	Consolidated 2019 £000	Company 2019 £000
In less than one year	**161**	**-**
In more than one year but not more than two years	**-**	**-**
More than two years but not more than three years	**33,712**	**33,672**
	33,873	**33,672**

Notes to the financial statements

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates will affect the Group's income. The Group's exposure to market risk predominantly relates to interest and currency risk.

Interest rate risk

The Group is exposed to the risk of interest rate fluctuations with regard to the debt provided by Reliance Brands Limited. The Group's policy aims to manage the interest cost of the Group within the constraints of its financial covenants and business plan.

Foreign currency risk

The Group operates internationally and is, therefore, exposed to the foreign exchange risk which can negatively impact revenue, costs, margins and profits.

The Groups transacts with customers in Ireland in Euro, with customers in Denmark, Sweden and Norway in Danish Krone, Swedish Krona and Norwegian Krone respectively, and with franchisees in US Dollar. The Group transacts with its suppliers of finished goods, based in continental Europe and Asia, in Euro and US Dollar. In addition to this, the Group is exposed to transaction risk on the translation and conversion of surplus Euro, US dollar, Danish Krone, Swedish Krona and Norwegian Krone and Hong Kong dollar cash balances into pounds sterling.

The following table shows the extent to which the Group has monetary assets at the balance sheet date in currencies other than the local currency of operation. Monetary assets and liabilities refer to cash, borrowings and other amounts to be received or paid in cash. Amounts exclude intercompany balances which eliminate on consolidation.

	2019	
	Monetary Assets £000	**Monetary liabilities £000**
Euro	**-**	**7**
US dollar	**2,365**	**5,822**
HK dollar	**-**	**-**
Danish Krone	**-**	**9**
Swedish Krona	**-**	**20**
	2,365	**5,858**

Own operated store sales are denominated in GBP whilst franchise revenue is denominated in USD. The USD foreign exchange risk is mitigated by stock purchases being made in USD. The Board will keep monitoring the impact of the exchange rate on the business closely and take appropriate measures to mitigate the impact where necessary.

Fair value disclosures

The fair value of each class of financial assets and liabilities is the carrying amount, based on the following assumptions

Trade receivables, trade payables and borrowings

The fair value approximates the carrying value because of the short maturity of these instruments.

Long-term borrowings

Following a substantial modification to the shareholder loan, management has recognised a fair value adjustment to the carrying value of the loan in the balance sheet.

Fair value hierarchy

Financial instruments carried at fair value should be measured with reference to the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments carried at fair value have been measured using a Level 2 valuation method.

Notes to the financial statements

The fair value of financial assets and liabilities are as follows:

	2019 £000
Cash and cash equivalents	**7,006**
Trade and other receivables	**2,436**
Total financial assets	**9,442**

	2019 £000
Trade and other payables	**12,147**
Borrowings at amortised cost	**33,872**
Total financial liabilities	**46,019**

Foreign exchange rate sensitivity analysis

The table below shows the Group's sensitivity to foreign exchange rates for its US dollar financial instruments, the major currency in which the Group's derivatives are denominated.

	2019 Increase/ (decrease) in equity £000
10% appreciation in the US dollar	**(346)**
10% depreciation in the US dollar	**346**

A strengthening / weakening of sterling, as indicated, against the US dollar at each period would have increased / (decreased) retained earnings by the amounts shown above. This analysis is based on foreign exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables remain constant.

There are no material movements in profit and loss for the period.

21 LEASE LIABILITIES

Consolidated Group

The following table shows the remaining contractual maturities of the company's lease liabilities at the end of the current year:

	2019 £000
Less than one year	**988**
Between one and five years	**2,780**
More than five years	**103,925**
	107,693

The Company leases a number of stores and warehouses under leases of varying lengths, for which incentives/ premiums are received under the relevant lease agreements. One lease relating to the property in Regent Street has 60 years left to run as at 31 December 2019.

During the year £1.2 million was recognised as an expense in the consolidated statement of profit and loss and other comprehensive income in respect of leases liabilities.

Notes to the financial statements

22 RELATED PARTIES

Transactions with key management personnel

Key management personnel include Directors and executive members of the Hamleys Group.

The compensation of key management personnel (including the Directors) is as follows:

	2019 £000
Salaries, allowances and benefits in kind	**1,166**
Retirement scheme contributions	**30**
	1,196

The highest paid director received total remuneration of £760 thousand. In addition, this director received pension contributions of £5 thousand

Other related party transactions

Balances between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

On 15 July 2019, the Group was acquired by Reliance Brands Limited.

	Income 2019 £000	Expenses 2019 £000
Parent of the Group		
Reliance Brands Limited		
Shareholder loan interest income/expense	**-**	**584**
Other (sale of stock, royalty)	**866**	**-**
Other expense	**-**	**2,015**
	866	**2,599**

	Receivables outstanding 2019 £000	Payables outstanding 2019 £000
Parent of the Group		
Reliance Brands Limited - Unsecured shareholder loans	**-**	**33,672**
Reliance Brands Limited - other payables	**-**	**2,015**
	-	**35,687**

23 ULTIMATE PARENT COMPANY AND PARENT COMPANY OF LARGER GROUP

The Company's ultimate parent company and controlling party is Reliance Industries Limited, a company incorporated in India. The company office address is 3rd Floor, Maker Chambers IV, 222, Nariman Point, Mumbai, Maharashtra 400021.

24 ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial information requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods impacted.

Notes to the financial statements

The key judgements and estimates employed in the financial statements are considered below.

Impairment of goodwill and indefinite life brand

On an annual basis, the Group is required to perform an impairment review to assess whether the carrying value of goodwill and indefinite life brand is less than its recoverable amount. Recoverable amount is based on a calculation of expected future cash flows, which include estimates of future performance.

Depreciation and amortisation

Judgement is required in assessing the useful economic lives of tangible fixed assets and intangible assets. These assumptions are based on the Directors' best estimate of the life of the asset and its residual value at the end of its economic life.

Impairment of property, plant and equipment and intangibles

The group has undertaken a significant strategic review of its store estate resulting in impairment of fixed assets in loss making stores where a decision has been made to exit. The carrying value of assets for the remaining store assets have been assessed against future cash flows and impairments have been recognised for stores where carrying amounts of the assets may not be recoverable.

Valuation of other intangible assets

The assessment of fair value in a business combination requires the recognition and measurement of the identifiable assets, liabilities and contingent liabilities in the acquired business. The key judgements required are the identification of intangible assets meeting the recognition criteria of IAS 38 and their attributable fair values. The key assumptions in relation to the brand valuation are the Directors' best estimate of its life and the royalty and discount rate used in its valuation.

Recoverability of receivables

Trade receivables are assessed for impairment and are impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. The Directors use historic experience and assessment of future profitability to assess whether an impairment is required.

Recoverability of inventories

The value of inventories is assessed for impairment and where required, a provision is made to reduce the cost to no more than net realisable value. This requires judgement and assumptions are made on anticipated utilisation and saleability, taking into account the nature and condition of inventory as well as historic experience and assessment of future profitability.

Deferred tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the temporary difference can be utilised. The directors make an assessment of future profits based on historical experience and various other forecasting judgements and assumptions. Where it is not deemed probable that future profits will be available, the deferred tax asset is not recognised to this extent.