Regulatory Story

Go to market news section

Shoe Zone PLC - SHOE Preliminary Results
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Shoe Zone plc

Preliminary Results

Shoe Zone plc ("Shoe Zone", the "Company" or the "Group"), the leading UK value footwear retailer, is pleased to announce its Preliminary Results for the 52 weeks ended 30 September 2017.

Financial Highlights

- Revenue of £157.8m (2016: £159.8m) reflecting the continued planned closure of loss making stores
- Product gross margin strengthened to 63.2% (2016: 62.0%)
- Statutory Profit before tax of £9.5m (2016: £10.3m), primarily due to the adverse impact of foreign exchange on imported goods into the UK
- Earnings per share of 15.8p (2016:16.9p)
- Strong cash conversion with cash balance of £11.8m (2016: £15.0m)
- Proposed final dividend maintained at 6.8p per share (2016: 6.8p)
- Total dividend of 10.2p per share (2016: 10.1p)

Operational Highlights

- Product:
  - Average transaction value improved by 3.3% during the year
  - Footwear orders placed directly with overseas factories increased to 84.7% (2016: 72.2%)
  - Non-footwear ranges continued to grow, with revenue up 14.5% to £8m
- Store portfolio:
  - 21 new stores opened and 29 refits completed
  - Six of these new stores were the continued roll out of the Big Box format, with three additional Big Box concept stores opened since year end
- E-commerce:

- Overall multichannel revenue increased by 34%, delivered £2m contribution in 2017
- Shoe Zone products now available in the US, alongside continuing presence in France, Germany, Spain and Italy via Amazon Marketplace

Nick Davis, Chief Executive of Shoe Zone plc, said:

"I am pleased with the Group's performance in what continues to be a challenging retail environment. We are still well positioned in the market given our strong value retail proposition and continue to manage our store portfolio successfully through our ongoing store rationalisation and refit programme. Following a successful trial of the Big Box concept during 2017, we are now targeting 10 new Big Box stores per year in the medium term."

"We continue to make good progress against our strategic objectives and have made a solid start to the year with trading in line with expectations. The Board remains positive about the outlook for the Group for the remainder of the year."

There will be a presentation for analysts at the offices of FTI Consulting, 200 Aldersgate, London, EC1A 4HD, at 9:30am on 10 January 2018.
For further information, please call:

Shoe Zone plc Anthony Smith (Chairman) Nick Davis (CEO) Jonathan Fearn (CFO)	Tel: via FTI Consulting
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Chief Executive's report

2017 was a historic year for Shoe Zone as the Group celebrated its centenary as a shoe retailer. Over its 100 years in retailing, the business has evolved into the leading specialist value footwear retailer in the UK. The strength of the business model combined with the retail expertise of our colleagues has meant that despite the current challenging economic environment, Shoe Zone continues to deliver positive results.

We have continued to make good progress on our strategy of developing the Big Box concept which extends our customer base, product range and price points. Within the core estate we have maintained our focus on value, robust cost control and effective property portfolio management.

The business delivered revenue of £157.8m (2016: £159.8m) and continues to generate cash effectively from a robust balance sheet position.

Statutory profit before tax has fallen by 7.3% from £10.3m to £9.5m, primarily due to the adverse impact of foreign exchange on imported goods into the UK, with earnings per share falling from 16.9p to 15.8p.

Dividends

The board remains committed to delivering positive dividend growth to shareholders. In recent years, the strategy has been to pay out around 60% of post-tax earnings as a normal dividend and any surplus cash above £11m as a special dividend.

For the year ended 30 September 2017, the board is proposing to pay out 65% of post-tax earnings as a normal dividend. The £0.8m surplus cash over and above the £11m that is required for the business to operate effectively will be reinvested in the business. This results in a final dividend of 6.8p per share (2016: 6.8p), giving a total dividend for the year of 10.2p (2016: 10.1p) per share.

The dividends will be paid to shareholders on the register on 23 February 2018, payable on 14 March 2018 if approved at the Annual General Meeting to be held on 1 March 2018. The shares will go ex-dividend on 22 February 2018.

Product

We remain committed to offering our customers the best possible value and have maintained flat key price points for our Core Value Lines despite facing difficult currency headwinds as a result of the weaker pound. Along with our low prices we have increased the value proposition by extending the number of lines in "Multi-Buy" deals (e.g. '2 for £20'). This, along with range enhancements has improved average transaction value by 3.3% during the year to £9.60. We have continued to increase our direct sourcing and as a result, footwear orders placed directly with overseas factories increased to 84.7% (2016: 72.2%) of total footwear orders. Working closely with our source of manufacture has helped maintain gross product margins as well as improving communication and control across the supply chain.

Non-footwear ranges including handbags, school bags, lunch boxes, purses and accessories continue to grow with sales from non-footwear up 14.5% on the previous year, now delivering revenue of £8m.

Our 'right price, first time' strategy which helps control the amount of markdown value as a percentage of turnover, continues to ensure we remain one of the industry leaders in having a low level of markdown on products. This year was no exception in achieving a level of 7.6% (2016: 7.1%), albeit being slightly higher than prior year due to the impact of the first season end of Branded stock in Big Box stores.

Store Portfolio

We closed the year operating from 496 stores having opened 21 and closed 35 during the period. Within the 21 store openings, six were the continued roll out of the Big Box format and the remaining 15 were of the latest Shoe Zone brand.

The core estate continues to be invested in and refreshed. We completed 29 refits during the year, at a total capital expenditure of £5.0m and continued with the roll out of the new brand fascia having converted 20% of all stores to the new fascia and branding. This will continue in the coming year with a target of 31 refits and 10 new standard openings.

Our strategy continues to be one of driving profitability from our larger Grade 1 stores and closing smaller Grade 3 stores.

The focus on managing rent costs has resulted in rents at the lease renewal date falling by 24.5% in the 12 month period (2016: reduction of 17%). We expect that rent reductions will continue to be achieved and has been complemented with a reduction in rates payable following the Government's review of business rates.

The business continues to benefit from a flexible portfolio with an average lease length of only 2.3 years and as a result, our lease structure gives us significant opportunity to respond to changes in shopping patterns in any retail location.

Loss making stores now make up only 6% of the store portfolio compared to 11% three years ago. We believe that the target of 5% of loss making stores within the portfolio will be achieved in the next 18 months.

Following a successful trial of the Big Box concept during the year we believe that the enhanced proposition is one that complements the existing Shoe Zone business and can be a profitable avenue of business growth over the coming years. In addition to the growth of Big Box store numbers, we have continued to refine the in-store offering. New brands such as Clarks have been successfully integrated and existing ranges are refined each season as we develop our understanding of customer demand and behaviours. We are targeting 10 new Big Box stores in 2018 and beyond into the medium term. In 2018 we are therefore targeting a total of 20 new openings; 10 Big Box and 10 standard stores.

E-commerce

E-commerce continues to be a key area of focus and growth for the business. Revenue has increased to £8.3m, (2016: £6.2m) an annual increase of 34% in the year and now delivers over £2m contribution before Head Office apportioned costs.

This continued growth is driven from both a focus on UK sales through our own website and online market places and the continued expansion into international markets. In addition to the European market, during 2017 we launched into the USA through Amazon.com. Revenue continues to grow in all international markets, albeit this remains a relatively small proportion of total multi-channel sales.

shoezone.com has had another successful year with a significant shift to selling through mobile devices. Mobile and tablet visits now represent 78.9% (2016: 74.9%) of all website visits.

Our email database continues to be a strong source of revenue and conversion. During 2017 we concentrated on increased conversion of active users and re-engagement of those who respond less often. This dual pronged approach has led to database growth of 25% and email campaign sales increased by 37% on the prior year, now accounting for 13% of site revenue.

Overall conversion rates remained broadly static at 4.2% over the full year (2016: 4.3%). The increase in traffic resulting from the Group's Search Engine Optimisation (SEO) strategy has meant a slight dilution in conversion rate, however this will be the key multi-channel focus for 2018. The 'mobile first' design and implementation continues to deliver strong results with conversion of 3.55% (2016: 3.39%), however desktop conversion has fallen marginally.

Employees and Charity

We are incredibly proud of all of our team's effort that has gone in to achieve these results and want to thank them for their on-going commitment and hard work. During 2017 Shoe Zone plc donated over £100,000 to charitable causes. We also continue to support BBC Children in Need and the enthusiasm and commitment of our colleagues has resulted in us collectively raising over £600,000 for our chosen charity in the last five years.

Current trading and Outlook

The outlook for consumer spending remains challenging with the difficult economic conditions likely to continue. Despite this, we are well positioned given our strong value retail proposition that has proven to be robust in challenging market conditions. We are exposed to fluctuations in the value of sterling but have put significant work into managing the risk through foreign currency hedging and re-sourcing. While we anticipate this pressure may be here for some time we expect to broadly maintain our gross margin percentages to their current levels.

We have continued to manage the store portfolio having opened seven new stores, including three Big Box stores since the year end and refitted a further nine. There are currently five new stores with provisional opening dates and a further 22 full refits planned for the remainder of the year.

We expect the business will continue to convert cash effectively but anticipate a small increase in capital expenditure to support store openings, refits, new till systems and head office improvements.

Shoe Zone has made a solid start to the year and trading is in line with expectations. We are making good progress against our strategic objectives and the board remains positive about the outlook for the Group for the remainder of the year.

Financial review

In the 52 weeks to 30 September 2017, Profit before Tax decreased from £10.3m to £9.5m, a reduction of 7.3%. This was primarily due to the impact of foreign exchange resulting from the weaker pound on the cost of imports from the Far East. Earnings per share decreased 7.0% to 15.8p (2016: 16.9p)

Revenues of £157.8m (2016: £159.8m) declined by 1.2% due to the continued planned closure of loss making stores, with the majority of the loss in revenue in the first half of the year.

Loss making stores now make up only 6% of the Shoe Zone portfolio, having been 11% three years ago. Overall store numbers reduced by a net 14 branches to 496 at the year-end (2016: 25 branches closed leaving a total of 510).

Multichannel growth has proved strong with revenues (excluding store orders) increasing by 34.5% (2016: 11.4%), and have now developed to 5.3% of total sales (2016: 3.9%). Contribution from multichannel increased to £2.0m in the year.

Product gross margin strengthened to 63.2% (2016: 62.0%) reflecting further increases in direct sourcing, successful negotiations with suppliers and management of write downs.

Operating expenses increased to £20.4m (2016: £17.4m). Administration expenses increased by £2.8m primarily due to the impact of foreign exchange differences, planned increases in multi-channel operational costs and store closure costs. However, these were offset by continuing efficiencies in Distribution Costs, which remained broadly flat year on year.

The effective rate of corporation tax for the year was 19.8% (2016: 21.8%).

During the year the Group opened 21 new stores and completed 29 refits, spending £5.0m (2016: £3.4m) on capital expenditure.

The pension liability has fallen by £6.0m from £13.1m to £7.1m due to an increase in the discount rate assumption from 2.40% to 2.75%. This assumption is based on the yield performance of corporate bonds.

The derivative financial liability of £2.5m represents the mark to market valuation of the derivative hedges in place at the end of the financial year. As outlined in the report, Shoe Zone only hedges against future dollar purchases of goods for resale, all hedges in place will be effective upon their delivery date.

The Group uses derivative financial instruments, typically forward exchange contracts, to hedge the risk of future foreign currency fluctuations. The hedging policy enables the effective portion of changes in the fair value of designated derivatives to be recognised in other comprehensive income. Historically these movements would have been recognised in the Income Statement. Further information can be seen in accounting policies in note 1 of the financial statements.

The Company generated £13.3m cash from operations, a year on year decrease of £0.6m resulting in a net cash position of £11.8m (2016: £15.0m) at the year end, underpinning a strong debt free balance sheet. The Group's current bank facilities consist of an on demand overdraft facility of £5.0m with HSBC. This facility has not been used within the year.

The Board is proposing a final dividend of 6.8p (2016: 6.8p) per share, resulting in a total dividend for the year of 10.2p (2016: 10.1p) per share. The Board continues to believe the business can operate on an opening/closing cash position of £11m and any excess above this level will be paid out to shareholders unless there is a change in business requirement.

The dividends will be paid to shareholders on the register on 23 February 2018, payable on 14 March 2018 if approved at the Annual General Meeting to be held on 1 March 2018. The shares will go ex-dividend on 22 February 2018.

Consolidated income statement for the 52 weeks ended 30 September 2017

	Note	**52 weeks ended 30 September 2017**	52 weeks ended 1 October 2016
		£'000	£'000
Revenue	2	**157,777**	159,834
Cost of sales		**(127,657)**	(132,022)
Gross profit		**30,120**	27,812
Administration expenses		**(14,454)**	(11,657)
Distribution costs		**(5,872)**	(5,769)
Profit from operations		**9,794**	10,386
Finance income		**15**	56
Finance expense		**(306)**	(190)
Profit before taxation		**9,503**	10,252
Taxation		**(1,620)**	(1,801)

Profit attributable to equity holders of the parent	**7,883**	8,451
Earnings per share - basic and diluted	**15.77p**	16.90p

Consolidated statement of total comprehensive income for the 52 weeks ended 30 September 2017

	52 weeks ended 30 September 2017 £'000	52 weeks ended 1 October 2016 £'000
Profit for the period	**7,883**	8,451
Items that will not be reclassified subsequently to the income statement		
Remeasurement gains / (losses) on defined benefit pension scheme	**5,608**	(8,190)
Movement in deferred tax on pension schemes	**(1217)**	1,474
Effect of change in deferred tax rate on opening liability	**-**	(362)
Items that will be reclassified subsequently to the income statement		
Fair value movements on cash flow hedges	**(934)**	1,683
Cash flow hedges recognised in inventories	**(1,233)**	(1,667)
Tax on cash flow hedges	**377**	(3)
Effect of change in deferred tax rate on opening liability	**-**	6
Other comprehensive income / (expense) for the period	**2,601**	(7,059)
Total comprehensive income for the period attributable to equity holders of the parent	**10,484**	1,392

Consolidated statement of financial position as at 30 September 2017

	Note	**52 weeks ended 30 September 2017 £'000**	52 weeks ended 1 October 2016 £'000
Assets			

Non-current assets			
Property, plant and equipment		**20,783**	18,661
Deferred tax asset		**861**	1,441
Total non-current assets		**21,644**	20,102
Current assets			
Inventories		**28,017**	30,075
Trade and other receivables		**6,108**	7,204
Derivative financial assets		**-**	651
Cash and cash equivalents		**11,786**	15,046
Total current assets		**45,911**	52,976
Total assets		**67,555**	73,078
Current liabilities			
Trade and other payables		**(23,576)**	(25,348)
Provisions		**(829)**	(922)
Derivative financial liability		**(2,546)**	
Corporation tax liability		**(474)**	(1,583)
Total current liabilities		**(27,425)**	(27,853)
Non-current liabilities			
Trade and other payables		**(1,742)**	(2,316)
Provisions		**(120)**	(75)
Employee benefit liability		**(7,108)**	(13,058)
Total non-current liabilities		**(8,970)**	(15,449)
Total liabilities		**(36,395)**	(43,302)
Net assets		**31,160**	29,776
Equity attributable to equity holders of the company			
Called up share capital	5	**500**	500
Merger reserve		**2,662**	2,662
Cash flow hedge reserve		**(1,520)**	270
Retained earnings		**29,518**	26,344
Total equity and reserves		**31,160**	29,776

Consolidated statement of changes in equity for the 52 weeks ended 30 September 2017

	Share capital	Merger reserve	Cash flow hedge reserve	Retained earnings	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
At 3 October 2015	500	2,662	251	32,871	36,284
Profit for the period	-	-	-	8,451	8,451
Other comprehensive expense	-	-	19	(7,078)	(7,059)

Total comprehensive income for the period	-	-	19	1,373	1,392
Dividends paid during the year (note 3)	-	-	-	(7,900)	(7,900)
Total contributions by and distributions to owners	-	-	-	(7,900)	(7,900)
At 1 October 2016	500	2,662	270	26,344	29,776
Profit for the period	-	-	-	7,883	7,883
Defined benefit pension movements	-	-	-	5,608	5,608
Cash flow hedge movements	-	-	(2,167)	-	(2,167)
Deferred tax on other comprehensive income	-	-	377	(1,217)	(840)
Total comprehensive income for the period	-	-	(1,790)	12,274	10,484
Dividends paid during the year (note 3)	-	-	-	(9,100)	(9,100)
Total contributions by and distributions to owners	-	-	-	(9,100)	(9,100)
At 30 September 2017	**500**	**2,662**	**(1,520)**	**29,518**	**31,160**

Share capital comprises nominal value of shares subscribed for.

The merger reserve has arisen as a result of the application of merger accounting to the group reorganisation of 26 March 2014.

The cash flow hedge reserve comprises of gains/losses arising on the effective portion of hedging instruments and is carried at fair value in a qualifying cash flow hedge.

Retained earnings are all other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Consolidated statement of cash flows for the 52 weeks ended 30 September 2017

	Note	**52 weeks ended 30 September 2017**	52 weeks ended 1 October 2016
		£'000	£'000
Operating activities			
Profit after taxation		**7,883**	8,451
Corporation tax		**1,620**	1,801
Finance income		**(15)**	(56)
Finance expense		**306**	190
Depreciation of property, plant and equipment		**2,962**	3,153
Loss on disposal of property, plant and equipment		**188**	309
Pension contributions paid		**(649)**	(472)
		12,295	13,376
Decrease in trade and other receivables		**1,084**	861
Decrease in foreign exchange contract		**321**	239

Decrease/(Increase) in inventories		**2,767**	(1,224)
(Decrease)/Increase in trade and other payables		**(2,467)**	821
Decrease in provisions		**(48)**	(168)
		1,657	529
Cash generated from operations		**13,952**	13,905
Income taxes paid		**(2,990)**	(2,041)
Net cash flows from operating activities		**10,962**	11,864
Investing activities			
Purchase of property, plant and equipment		**(5,137)**	(3,195)
Interest received		**15**	56
Net cash used in investing activities		**(5,122)**	(3,139)
Financing activities			
Dividends paid during the year	3	**(9,100)**	(7,900)
Net cash used in financing activities		**(9,100)**	(7,900)
Net (decrease)/ increase in cash and cash equivalents		**(3,260)**	825
Cash and cash equivalents at beginning of period		**15,046**	14,221
Cash and cash equivalents at end of period		**11,786**	15,046

1 Accounting policies

General information

Shoe Zone plc (the 'Company') is a public company incorporated and domiciled in England and Wales. The registered office is at Haramead Business Centre, Humberstone Road, Leicester, LE1 2LH. The company registered number of the Company is 8961190.

The Company and its subsidiaries' (collectively the Group) principal activity is a footwear retailer in the United Kingdom and the Republic of Ireland.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied for the 52 weeks ended 30 September 2017.

The announcement of results for the Group for the 52 weeks ended 30 September 2017 was authorised for issue in accordance with a resolution of the directors on 9 January 2018.

The Group financial statements for the 52 weeks ended 30 September 2017 included in this report do not constitute the Group's statutory accounts for the 52 weeks ended 30 September 2017, or the 52 weeks ended 1 October 2016 but is derived from those accounts. The auditor has reported on these accounts; their report was unqualified, did not draw any matters by way of emphasis without qualifying their report and did not contain statements under s498 (2) or (3) Companies Act 2006 or equivalent preceding legislation. The statutory accounts for the 52 weeks ended 1 October 2016 have been filed with the Registrar of Companies.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs.

The consolidated financial statements are presented in Sterling, which is also the Group's functional currency.

Amounts are rounded to the nearest thousand, unless otherwise stated.

Basis of consolidation

The consolidated financial statements incorporating the financial statements of Shoe Zone plc and its subsidiary undertakings are all made up to 30 September 2017. The results for all subsidiary companies are consolidated using the acquisition method of accounting.

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the company considers all relevant facts and circumstances, including:

- The size of the company's voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the company and by other parties
- Other contractual arrangements
- Historic patterns in voting attendance.

The consolidated financial statements present the results of the company and its subsidiaries ('the Group') as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

Changes in accounting policies

The Group has not early adopted the following new standards, amendments or interpretations that have been issued but are not yet effective. The Directors anticipate that the adoption of these standards will not result in significant changes to the Group's accounting policies. The Group has commenced its assessment of the impact of these standards but is not yet in a position to state whether these standards would have a material impact on its results of operations and financial position.

Standards, amendments and interpretations which are not effective or early adopted by the Group

Standards or amendments that are applicable but that are not effective and have not been early adopted are as follows:

IFRS 16 'Leases'. This amendment is effective for the 52 week financial period ending 3 October 2020 and will require a significant change in the accounting and reporting of leases for the Group. The standard will require lessees to recognise assets and liabilities for all leases, with the exception of low value leases or where the lease term is 12 months or less. The impact on the Group is currently being assessed and it is not yet practicable to quantify the effect of the standard on these consolidated financial statements.

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for the 52 week financial period ending 28 September 2019. The main change for the Group is a simplification of hedge accounting rules. As a result, the impact of the change on the Group is minimal, and will result in no changes in disclosure.

IFRS 15 'Revenue from Contracts with Customers'. This is effective for the 52 week financial period ending 28 September 2019, and requires revenue generated from contracts with customers to more accurately reflect the economic reality. This standard will not have any impact on the Group's revenues, as all of the Group's revenue relates to the sale of products made directly to customers either in store or online no contracts are in place for any revenue generated.

The group has not early adopted any IFRSs or IFRS interpretations.

There have been no changes to standards during the year that affect the Group.

Revenue

Revenue is measured at the fair value of consideration received or receivable net of discounts, returns and VAT. Revenue is recognised when the company has transferred the significant risks and rewards of ownership to the buyer at the point of sale in the shop. At the point of sale a provision is made for the level of expected returns based on previous experience.

Internet sales are recognised when the goods have been paid for, despatched and received by the customer.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as purchase price, cost includes directly attributable costs.

Depreciation is provided on all items of property, plant and equipment so as to write off their carrying value over the expected useful economic lives. It is provided at the following rates:

Leasehold improvements	-	5-10 years on a straight line basis
Fixtures and fittings	-	5-10 years on a straight line basis
Motor vehicles	-	3-5 years on a straight line basis

No depreciation is provided against freehold land. Depreciation is provided against freehold shop properties writing off the original cost less estimated residual value over the useful economic life of the property which is estimated to be 50 years.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Shoe Zone plc Group (a 'finance lease'), the asset is treated as if it had been purchased outright.

The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between interest and capital. The interest element is charged to the consolidated income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), the total rentals payable under the lease are charged to the consolidated income statement on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Impairment of non-financial assets

The carrying values of non-financial assets are reviewed for impairment when there is an indication that assets might be impaired. When the carrying value of an asset exceeds its recoverable amount, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash generating unit (i.e. the smallest group of assets in which the asset belongs for which there are separable identifiable cash flows).

Impairment charges are included in the consolidated income statement in cost of sales, except to the extent they reverse previous gains recognised in the consolidated statement of comprehensive income.

Inventories

Inventories are initially recognised at cost on a first in first out basis, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Financial assets

The Group classified its financial assets into the categories, discussed below, due to the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Loans and receivables

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

Loans and receivable assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents included within the consolidated statement of financial position.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The Group classified its financial liabilities as other financial liabilities which include the following:

- trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Derivative financial instruments and hedging activities

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge.

- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

- The cumulative change in the fair value of the hedging instrument is expected to be between 80-125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged (i.e. it is expected to be highly effective).

- The effectiveness of the hedge can be reliably measured.

- The hedge remains highly effective on each date tested. Effectiveness is tested quarterly

The Group uses derivative financial instruments such as forward foreign exchange contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially measured at fair value and subsequently remeasured at fair value. The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in cost of sales in the income statement.

Amounts accumulated in equity are reclassified to inventories in the period when the purchase occurs, matching the hedged transaction. The cash flows are expected to occur and impact on profit and loss within 12 months from the year end.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in equity is retained in equity and is recognised when the forecast transaction is ultimately recognised in cost of sales in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities or assets are settled or recovered. Deferred tax balances are not discounted.

Deferred tax assets are offset when the Group has legally enforceable rights to set off current tax assets against current tax liabilities and the deferred tax liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different company entities which intend to either settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets and liabilities are expected to be settled or recovered.

Provisions

Provision for dilapidations is made at the best estimate of the expenditure required to settle the obligation at the reporting date, where material, discounted at the pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability. A dilapidation provision is only recognised on those properties which are likely to be exited. Where such property is identified the full costs expected are recognised. This provision relates to the liability of wear and tear incurred on the leasehold properties and does not include any removal of shop refits as experience indicates that liabilities do not arise for removal of shop refits.

Foreign exchange

Transactions entered into the Group entities in a currency other than the functional currency are recorded at the average monthly rate prevailing during the period. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date.

Foreign exchange differences are recognised in the profit and loss account.

Retirement benefits - defined contribution and benefit schemes

The Group operates both defined benefit and defined contribution funded pension schemes. The schemes are administered by trustees and are independent of the Group.

Contributions to defined contribution schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

Defined benefit scheme surpluses and deficits are measured at:

- the fair value of plan assets at the reporting date; less
- plan liabilities calculated using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities; plus
- unrecognised past service costs; less
- the effect of minimum funding requirements agreed with scheme trustees.

Re-measurements of the net defined obligation are recognised directly within equity. These include actuarial gains and losses, return on plan assets (interest exclusive), and any asset ceilings (interest exclusive).

Service costs are recognised in the income statement, and include current and past service costs as well as gains and losses on curtailments.

Net interest expense (income) is recognised in profit or loss, and is calculated by applying the discount rate used to measure the defined benefit obligation (asset) at the beginning of the annual period to the balance of the net defined benefit obligation (asset), considering the effects of contributions and benefit payments during the period.

Gains or losses arising from changes to scheme benefits or scheme curtailment are recognised immediately in profit or loss.

Settlements of defined benefit schemes are recognised in the period in which the settlement occurs.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

2 Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including the Chairman, Chief Financial Officer and Chief Operating Officer.

The Board considers that each store is an operating segment but there is only one reporting segment as the stores qualify for aggregation, as defined under IFRS 8. Management reviews the performance of the Group by reference to total results against budget. The total profit measures are operating profit and profit for the year, both disclosed on the face of the consolidated income statement. No differences exist between the basis of preparation of the performance measures used by management and the figures in the Group financial statements.

	52 weeks ended 30 September 2017	52 weeks ended 1 October 2016
	£'000	£'000
External revenue by location of customers:		
United Kingdom	**152,562**	154,463
Republic of Ireland	**4,991**	5,371
Other	**224**	-
	157,777	159,834

There are no customers with turnover in excess of 10% or more of total turnover.

	52 weeks ended 30 September 2017	52 weeks ended 1 October 2016
	£'000	£'000
Non-current assets by location:		
United Kingdom	**20,499**	18,661
Other	**284**	-
	20,783	18,661

3 Dividends

	52 weeks ended 30 September 2017	52 weeks ended 1 October 2016
	£'000	£'000
Dividends paid during the year: final 14.8p, interim 3.4p (2016: final 12.5p interim 3.3p) per share	**9,100**	7,900

A final dividend of 6.8p (2016: 6.8p) per share is proposed for shareholders on the register on 23 February 2018 payable on 14 March 2018 following approval at the Annual General Meeting on 1 March 2018.

4 Contingent liabilities

The Shoe Zone plc Group and subsidiary undertakings have given a duty deferment guarantee in favour of HM Revenue and Customs amounting to £800,000 (1 October 2016: £800,000).

5 Share Capital

	30 September 2017	1 October 2016
	£'000	£'000
Share capital issued and fully paid		
50,000,000 ordinary shares of 1p each	**500**	500
	500	500

Ordinary shares carry the right to one vote per share at general meetings of the company and the rights to share in any distribution of profits or returns of capital and to share in any residual assets available for distribution in the event of a winding up.

6 Earnings per share

Earnings per share is calculated by dividing profit for the year by the weighted average number of shares outstanding during the year.

	52 weeks ended 30 September 2017	52 weeks ended 1 October 2016
	£'000	£'000
Numerator		
Profit for the year and earnings used in basic and diluted EPS	**7,883**	8,451

	30 September 2017	1 October 2016
Denominator		
Weighted average number of shares used in basic and diluted EPS	**50,000,000**	50,000,000

7 Ultimate controlling party

The company is controlled by the Smith family albeit there is not a single controlling party

END

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