



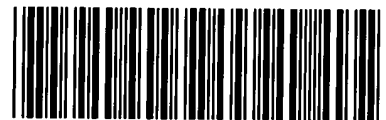
Hobbycraft Trading Limited

Annual Report

For the 52 weeks ended 19 February 2017

Registered number: 0806269

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Hobbycraft Trading Limited

Annual Report for the 52 weeks ended 19 February 2017

Hobbycraft Trading Limited is a private company limited by shares and registered in England.

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Hobbycraft Trading Limited

Directors and Advisors

Directors	Catriona Marshall Dominic Jordan Katherine Paterson Matthew Moore
Registered office	7 Enterprise Way Aviation Park Bournemouth International Airport Hurn, Christchurch Dorset BH23 6HG
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Savannah House 3 Ocean Way Southampton SO14 3TJ
Solicitors	Travers Smith LLP 10 Snow Hill London EC1A 2AL
Bankers	Lloyds TSB Bank plc 2 City Place Beehive Ring Road Gatwick West Sussex RH6 0PA

Hobbycraft Trading Limited

Strategic Report for the 52 weeks ended 19 February 2017

The directors present their Strategic Report together with the audited financial statements for the 52 weeks ended 19 February 2017.

Principal activities

Hobbycraft Trading Limited ("the Company") is a specialist retailer trading in the United Kingdom. The business conducted is principally the sale of arts and craft related products, trading under the name Hobbycraft.

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and on-going review by management. Compliance with regulation, health and safety, legal and ethical standards is a high priority for the Company and the finance department take on an important oversight role in this regard.

The Company has developed a framework for identifying the risks that each business sector, and the Company as a whole, is exposed to and their impact on economic capital. This process is risk based and uses Individual Capital Assessment principles to manage our capital requirements and to ensure we have the financial strength and capital adequacy to support the growth of the business and to meet the requirements of policyholders, regulators and rating agencies.

The principal risks from our business arise from inaccurate pricing, product obsolescence, inadequate theft protection, and sub-standard product quality.

Business environment

The UK retail environment remains competitive, with different elements within our categories ranged by independents but also across many multi-site competitors, including the grocers. While the majority of companies do not offer similar broad coverage, there is sufficient interest, including from online specialists within individual categories, to make continual focus on Value an important differentiating factor. This focus is even more important following the Brexit decision last summer and the subsequent marked devaluation of £ Sterling.

Strategy

The Company's success is dependent on the proper selection, pricing and merchandising of arts and craft products. We believe it is important to retain a range that meets the needs of our established customer base, which we have enhanced this year through the launch of specialist verticals, while also inspiring a new generation of customers through improved Brand Innovation in relevant markets, more accessible pricing and a 'help to get started' experience. Furthermore, we have continued our SKU reduction programme, rationalising our range to build a simpler, better and cheaper business through the removal of more than 4,000 of our slowest-moving lines.

As we continue the business transformation into a balanced, multi-channel retailer, the Company will continue to open new smaller format stores in relevant locations across the United Kingdom whilst maintaining the double digit growth Online through our growing social media community, a loyal 2.5m strong Hobbycraft Club and a full year of an International e-commerce platform.

We remain focussed on driving further efficiency in all areas of our operations, retail, distribution and central functions, with the evolution of Supply Chain remaining as top priority.

Hobbycraft Trading Limited

Strategic Report (continued) for the 52 weeks ended 19 February 2017

Review of the business

The Profit and Loss Account for the period is set out on page 10. Revenue for the period was £158.3m (2016: £151.8m) and EBITDA was £7.6m (2016: £10.9m). Operating profit was £1.7m (2016: £4.9m). At 19 February 2017, the Company had a net cash position of £25.2m, net current assets of £32.6m and overall net assets of £56.4m.

During the year, we expanded our store footprint with the opening of four new stores in Bristol, Ashford (Kent), Newcastle and Ipswich, taking our store network to 87 at period-end which, coupled with the strength of our e-commerce channel, helped to drive like for like growth including e-commerce of 1.0% (2016: 6.3%). Overall profitability declined to £7.6m in the year (2016: £10.9m) in part due to one off setbacks in the Supply Chain and the weakening of £ Sterling following the Brexit vote.

Our e-commerce platform continues to evolve with the launch of a specific International platform and mobile conversion enhancements. In addition, the sustained investment in the Hobbycraft Club has helped to boost the number of customers signed up to our e-mail and promotional programmes which has been further supported by an interactive and growing Social Media community.

The Company will continue to invest for growth by increasing its footprint across the United Kingdom alongside an increasing multi-channel presence. The Board aims to increase EBITDA by both organic and new store sales growth, online growth, effective cost management and capital investment.

Key performance indicators ('KPIs')

The Board monitors the progress of the Company by reference to the following KPIs:

	2017	2016
Retail sales	£158.3m	£151.8m
Gross profit %	54.5%	56.1%
EBITDA	£7.6m	£10.9m
LFL (decline) / growth (excluding e-commerce)	(1.0%)	4.7%
LFL growth (including e-commerce)	1.0%	6.3%
Average net stock per store (excluding Distribution Centre)	£228.2k	£231.6k
Cash at bank and in hand	£25.2m	£24.6m
Customer satisfaction (Net Promoter Score)*	80%	79%
Colleague engagement	85.6%	75.1%

*Net Promoter Score is an industry-wide management tool that is used to assess the loyalty of customer relationships by asking "How likely is it you would recommend us to a friend?". The balance of responses between "Promoters" and "Detractors" gives an NPS%.

Environmental, Social and Corporate Governance (ESG) impacts

ESG principles are central to the business and factoring these into our business decisions is important for stakeholders, employees and the communities in which we operate. As well as complying with regulatory requirements, we actively encourage our teams to make ESG considerations a part of everyday business decision making.

Future developments


We plan to continue to pursue our strategy to improve the broader appeal of our Brand through leveraging our broad range of products to meet the needs of our Value purchaser, as well as more specialist materials and newness to satisfy the requirements of our craft enthusiasts. This includes working closely with our suppliers to refine our ranges to meet emerging trends whilst counteracting the headwind of Brexit.

Hobbycraft Trading Limited

Strategic Report (continued) for the 52 weeks ended 19 February 2017

In the coming year, our focus will be to grow revenue through our existing store estate, the opening of up to four new locations in the new, smaller store format, stabilisation of trading margin and continued double-digit growth in our overall Online offering most notably International. We have already made marked improvements in the Supply Chain following the challenges we faced last year and initial trading in the first quarter has been robust, ahead of budget and the prior year.

On behalf of the board



Catriona Marshall

21 June 2017

Hobbycraft Trading Limited

Directors' Report for the 52 weeks ended 19 February 2017

The directors present their report and the audited financial statements for the 52 weeks ended 19 February 2017. The comparative period was the 52 weeks ended 21 February 2016. A review of the business and future developments is set out in the Strategic Report.

Health and safety

The health and safety of our customers and colleagues in all areas of the business is of the highest importance to the Company. We ensure that all colleagues are well trained in this area and we are developing easier ways for our colleagues to keep up to date with the latest legal requirements and processes. We regularly have an independent audit of our performance to monitor any potential risks and controls and to deal with all matters as quickly and thoroughly as possible.

Financial risk management

The Company's operations expose it to a variety of financial risks which the directors believe are notably the effects of liquidity risk and foreign currency risk. The directors have evaluated price and credit risk and consider that these are not significant to the Company.

Currency risk

The majority of transactions for goods for resale purchased from overseas (which represents approximately 25% of purchases by value) are denominated in US Dollars, with a smaller proportion in Euros. The Company has a proactive hedging policy in place to manage short/medium term foreign currency requirements and limit the exposure to currency volatility between the US Dollar, Euro and £ Sterling which in recent months have been driven by Brexit.

Liquidity and cash flow risk

In order to manage the liquidity and cash flow risks the Company prepares regular forecasts and reports to the Board in order to ensure that sufficient funds are available to support both working capital needs and capital requirements as planned.

The Company had access to £6.0m of banking facilities and has a net cash position of £25.2m at period-end. Both risks are reduced by these positions.

Economic downturn

As a retailer the success of the business is reliant on consumer spending. In response to this risk, senior management closely monitors results and economic conditions and, when necessary, modifies business strategies accordingly. It is expected that the protracted Brexit negotiations will have some impact on consumer spending but the full impact in the short/medium term is unknown.

Employee policy

It is essential to the success of Hobbycraft Trading Limited that the right colleagues are recruited and retained. The business has a policy to ensure every colleague is appraised annually, reviewing past performance and setting future objectives. Each colleague is then developed and supported as determined by their individual need. The appraisals play an important role in the individual's career planning and the development of training needs.

The Company has a policy of communicating openly with colleagues and provides information about the Company's performance on an on-going basis. Regular meetings are held in stores and in support offices to ensure that all colleagues achieve a common awareness of the financial and economic factors that affect the Company. These meetings also allow colleagues to share their views on matters affecting their interests.

In addition, the Company continues to operate a share option scheme for senior managers to encourage the involvement of these colleagues in the Company's performance.

Hobbycraft Trading Limited

Directors' Report (continued) for the 52 weeks ended 19 February 2017

The Company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person.

Arrangements are made, wherever possible, for retaining colleagues who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Supplier payment policy

The Company's policy concerning the payment of its trade creditors is, unless otherwise agreed at the time of the contract, payment of invoices 60 days (2016: 60 days) after the month of invoice.

For all trade creditors, it is the Company's policy to;

- agree the terms of payment at the start of business with that supplier; and
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with its contractual and other legal obligations.

Dividends

There were no dividends paid or proposed during the period ended 19 February 2017 (2016: nil).

Directors

The directors of the Company who were in office during the period and up to the date of signing the financial statements were:

Catriona Marshall
Matthew Moore
Katherine Paterson
Dominic Jordan

Qualifying third party indemnity provisions

A qualifying third party indemnity provision was in place throughout the period through a Group policy for the benefit of one or more of the directors.

Audit committee

Hobbycraft Group Limited, in respect of the Group as a whole, has an audit committee in place to review the effectiveness of the Group's systems of internal financial controls. The committee meets at least once a year and receives reports from external auditors and from management.

Disclosure of information to auditors

Each director of the Company has confirmed that, in fulfilling their duties as a director, they have;

- taken all necessary steps in order to make themselves aware of any information relevant to the audit and to establish that the auditors are aware of that information; and
- so far as they are aware, there is no relevant audit information of which the auditors have not been made aware.

This confirmation is given and should be interpreted in accordance with the provision of section 418 of the Companies Act 2006.

Hobbycraft Trading Limited

Directors' Report (continued) for the 52 weeks ended 19 February 2017

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to remain as auditors and it is the intention of the directors to re-appoint them for the next financial year.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial 52 week period. Under that law the directors have prepared the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.


The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The Company balance sheet shows net assets of £56.4m (2016: assets £54.6m).

The directors believe that this, together with the £25.2m of net cash held in the Company, a £6m Working Capital facility until June 2018 and the historic and forecast cash generation of the Company make the preparation of the Company financial statements on a going concern basis appropriate.

The financial statements on pages 11 to 30 were approved by the Board of Directors on June 2017 and signed on its behalf by:



Catriona Marshall

21 June 2017

Hobbycraft Trading Limited

Independent Auditors' Report to the Members of Hobbycraft Trading Limited

Report on the financial statements

Our opinion

In our opinion, Hobbycraft Trading Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 19 February 2017 and of the Company's profit and cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Report and financial statements (the "Annual Report"), comprise:

- the Balance Sheet as at 19 February 2017;
- the Profit and Loss Account for the period then ended;
- the Statement of Changes in Equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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 period 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.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Hobbycraft Trading Limited

Independent Auditors' Report to the Members of Hobbycraft Trading Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

Hobbycraft Trading Limited

Independent Auditors' Report to the Members of Hobbycraft Trading Limited (continued)

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Natasha Jones

Natasha Jones (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

21 June 2017

Hobbycraft Trading Limited

Profit and Loss Account for the 52 weeks ended 19 February 2017

		2017	2016
	Note	£'000	£'000
Revenue	2	158,320	151,760
Cost of sales		(72,092)	(66,624)
Gross profit		86,228	85,136
Other operating expenses excluding depreciation, amortisation and exceptional items	3	(78,677)	(74,246)
EBITDA		7,551	10,890
Depreciation	3	(4,913)	(5,626)
Amortisation	3	(958)	(319)
Operating profit		1,680	4,945
Finance income		36	25
Finance costs	6	(185)	(249)
Profit before taxation		1,531	4,721
Tax on profit	7	321	(51)
Profit for the period		1,852	4,670
Total comprehensive profit for the period		1,852	4,670

EBITDA is defined as operating profit on continuing activities before depreciation and amortisation.

All amounts relate to continuing activities.

The notes on pages 14 to 30 form part of these financial statements.

Hobbycraft Trading Limited
Balance Sheet as at 19 February 2017

Company number: 0806269

		19 February 2017	21 February 2016
	Note	£'000	£'000
Fixed assets			
Tangible assets	8	27,062	30,521
Intangible assets	9	1,033	698
		28,095	31,219
Current assets			
Inventories	11	29,090	26,067
Debtors	12	7,976	5,654
Cash and cash equivalents		25,247	24,586
		62,313	56,307
Creditors: amounts falling due within one year	13	(29,753)	(29,532)
Net current assets		32,560	26,775
Total assets less current liabilities		60,655	57,994
Creditors: amounts falling due after more than one year	14	(4,191)	(3,330)
Provision for liabilities	15	(40)	(40)
Deferred taxation	16	-	(49)
Net assets		56,424	54,575
Capital and reserves			
Called up share capital	19	8	8
Capital redemption reserve		1	1
Share based payments	18	9	12
Profit and loss account		56,406	54,554
Total shareholders' funds		56,424	54,575

The financial statements were approved by the Board of Directors and authorised for issue on 21 June 2017 and were signed on its behalf by:



Catriona Marshall

Hobbycraft Trading Limited

Statement of Changes in Equity for the 52 weeks ended 19 February 2017

	Called up share capital	Capital contribution reserve	Share based payments	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
As at 22 February 2015	8	1	7	49,884	49,900
Profit for the period	-	-	-	4,670	4,670
Share based payment charge	-	-	5	-	5
As at 21 February 2016	8	1	12	54,554	54,575
Profit for the period	-	-	-	1,852	1,852
Share based payment charge	-	-	(3)	-	(3)
As at 19 February 2017	8	1	9	56,406	56,424

Hobbycraft Trading Limited

Notes to the Financial Statements for the 52 weeks ended 19 February 2017

1 Accounting policies

Statement of compliance

Hobbycraft Trading Limited is a limited liability company incorporated in England. The Company's financial statements have been prepared in compliance with FRS 102 and the Companies Act 2006 as it applies to the financial statements of the Company for the 52 weeks ended 19 February 2017. The Company transitioned from previously extant UK GAAP to FRS 102 as at 24 February 2014.

Basis of accounting

The Company financial statements have been prepared under the historical cost convention.

The Company is a wholly-owned subsidiary of Stitch Bidco Limited and is included in the consolidated financial statements of Hobbycraft Group Limited which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of s400 of the Companies Act 2006.

The Company has taken advantage of the exemption, under FRS 102 para 1.12(b) from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, Hobbycraft Group Limited, includes the Company's cash flows in its own consolidated financial statements.

The Company has also taken advantage of the exemption, under FRS 102 paras 11.39 – 11.48A from providing certain financial instrument disclosures as the information is provided in the consolidated financial statements of Hobbycraft Group Limited.

The financial statements are prepared in £ Sterling which is the functional currency and rounded to the nearest £'000.

The Company's accounting policies have been applied consistently.

Critical accounting judgements and estimation uncertainty

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

The significant judgement areas and management's approach are as follows;

(a) Provisions

Provision is made for stock shrink at stores incurred from the date of the last full count to the period-end. Provisions are made on a store by store basis as a percentage of sales, based on shrink rates observed at the last full count, adjusted if necessary to reflect any known change in circumstances.

Provision is made for dilapidations and contingencies. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of cash flows and the discount rates used to establish net present values require management's judgement.

Provisions are made for any reduction in Net Realisable Value of inventories by identifying clearance and disposal inventories where it is likely that a reduction in selling price will be required to clear through the stock lines across the stores.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

(b) Share based payments

The Group operated two share-based payment schemes during the period: the Hobbycraft Share Offer Plan and the Executive Scheme. Each scheme is equity settled, except in respect of leaver provisions. Management is required to exercise judgement in estimating the fair value of the shares, the likely timing of 'good' and 'bad' leavers, the vesting period, and the expectation of the date of change of control of the Group.

Revenue

Revenue, which excludes value added tax and discounts, comprises the value of sales of goods in the normal course of business. Revenue is recognised at the point at which the goods are paid for by the customer which, in respect of e-commerce sales, is upon despatch. Provision is made for returns.

Revenue from gift vouchers and gift cards sold by the Group is recognised on the redemption of the gift voucher or gift card. Monies received are shown as deferred revenue prior to redemption.

Finance costs

Finance costs are charged to profit and loss over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument and are amortised over the expected life of the debt.

Tangible assets and depreciation

Tangible assets are included at cost, less accumulated depreciation. The cost is the purchase price together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Leasehold improvements	2 - 20
Plant and machinery	20 - 33
Fixtures and fittings	10 - 33
Computer equipment	20 - 33

Leasehold improvements are depreciated over the life of the remaining term of the lease.

Intangible assets and amortisation

Intangible assets are included at cost, less accumulated amortisation. The cost is the purchase price together with any incidental costs of acquisition. Intangible assets are amortised on a straight line basis over their estimated useful life. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

The useful economic lives of intangible assets are as follows:

Computer software	3 years
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If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting period previous estimates will be reviewed and, if current expectations differ, the residual value, amortisation method or useful life will be amended. Changes in the expected useful life or the expected pattern of consumption of benefit will be accounted for as a change in accounting estimate.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

Investments

Investments in subsidiary undertakings are recorded at cost plus incidental expenses, less any provision for impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. Cost includes transport and appropriate handling costs, including those overheads incurred in bringing the product to its present location and condition. Provision is made where necessary for obsolete, slow moving and defective stocks.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial instruments are recognised at amortised cost.

Provision policy

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Leased assets

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease, based on the substance of the arrangement.

a) Operating lease assets

Leases that do not transfer all risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the Profit and Loss Account on a straight-line basis over the period of the lease.

b) Lease incentives

Incentives received to enter into an operating lease are credited to the Profit and Loss Account, to reduce the lease expense, on a straight-line basis over the period of the lease or to the break clause.

The Company has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (24 February 2014) and continues to credit such lease incentives to the Profit and Loss Account over the period to the first review date on which the rent is adjusted to market rates.

Current taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax

Under FRS 102, deferred tax is recognised on a timing difference plus approach. Timing differences are the differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised as financial instruments.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

Consequently deferred tax has been recognised on all fair value re-measurements and on all fair value adjustments arising on business combinations (other than goodwill). There are no adjustments required on business combinations arising prior to transition.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into £ Sterling at the rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are recorded at an average rate, which is reviewed on a regular basis and changed when there is significant movement. Exchange gains and losses are recognised in the Profit and Loss Account.

Forward contracts and hedging

The Company arranges currency hedge instruments where appropriate to manage the risk arising from purchases made in foreign currencies (currently US Dollars and Euros). The derivative is valued at fair value at the balance sheet date, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are the forward exchange rates for GBP:EUR and GBP:USD. Any charge or credit is taken to the profit and loss account at that date.

Pension scheme arrangements

The Company operates defined contribution pension schemes for eligible employees and directors. The Company's obligation at any point in time is restricted to the amount of contributions payable to date. The pension cost is therefore the amount of the contributions payable in respect of the particular accounting period.

Share based payments

The Company participates in two share based payment schemes operated by the Group: the Hobbycraft Share Offer Plan and the Executive Scheme. Each scheme is equity settled, except in respect of leaver provisions. A charge is recognised in the Profit and Loss Account in reference to the fair value at the date at which the shares are granted. The fair value of shares is measured using a Black-Scholes model. The charge in respect of awards granted is spread over the vesting period, which reflects management's expectation of the date of change of control of the Group.

Going concern

The Company's forecasts and projections, taking account of the reasonably possible changes in trading performance, show that the Company will be able to operate within the level of its current cash balances and working capital facility for both working capital and capital investments in the foreseeable future. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

2 Analysis of revenue

Revenue represents the amounts derived from the provision of goods and services which fall within the Company's ordinary activities, stated net of value added tax. The Company operates in a single principal area of activity, retailing, specialising in art and craft related products.

Revenue consists almost entirely of sales made in the United Kingdom. The Company's international e-commerce sales are made via an intermediary based in the United Kingdom.

3 Operating profit

Other operating expenses are made up as follows:

	2017	2016
	£'000	£'000
Distribution costs	33,203	30,865
Administrative expenses	45,474	43,381
	78,677	74,246

	2017	2016
	£'000	£'000

Profit before taxation is stated after charging:

Loss on disposal of tangible assets	37	21
Depreciation of tangible assets	4,913	5,626
Amortisation of intangible assets	958	319
Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements	50	60
Fees payable to the Company's auditors and its associates for tax compliance during the period	18	16
Fees payable to the Company's auditors and its associates for tax advisory services to the Company	23	56
Operating leases - plant and machinery	268	277
Operating leases - other	20,433	20,083
Exchange loss / (profit)	457	10
Inventory recognised as an expense	72,490	66,911

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

4 Employees

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

	2017	2016
	Number	Number
Selling and distribution	1,076	1,030
Administration	110	103
	1,186	1,133

Staff costs (for the above persons including directors):

	2017	2016
	£'000	£'000
Wages and salaries	25,255	24,505
Social security costs	1,728	1,595
Other pension costs (see note 17)	300	287
Redundancy related costs	4	14
Share-based payments	(3)	5
Total direct costs of employment	27,284	26,406

In addition to the above, costs relating to temporary and contract staff totalled £2,572,000 (2016: £1,623,000).

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

5 Directors' emoluments

	2017	2016
	£'000	£'000
Emoluments (including benefits in kind)	397	502
Pension contributions to money purchase schemes	27	27
	424	529

As at the period-end date, four (2016: four) directors held shares under a long-term incentive plan.

Directors' emoluments include amounts paid to the highest paid director:

	2017	2016
	£'000	£'000
Emoluments (including benefits in kind)	223	281
Pension contributions to money purchase schemes	17	16
	240	297

The highest paid director did not exercise any share options in the period.

During the period benefits were accruing to four (2016: five) directors under defined contribution schemes.

Catriona Marshall, Matthew Moore and William Newton (resigned 6 August 2015) were employed and paid by Hobbycraft Group Limited, the Company's ultimate parent and their emoluments are disclosed in those financial statements.

6 Finance costs

	2017	2016
	£'000	£'000
Interest payable on overdrafts and bank loans	185	249

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

7 Tax on profit

	2017 £'000	2016 £'000
Current tax:		
UK corporation tax on profits for the period	-	442
Adjustments in respect of previous periods	82	-
	82	442
Deferred tax:		
Origination and reversal of timing difference	(375)	(42)
Adjustments in respect of previous periods	(86)	(344)
Effect of changes in tax rates	58	(5)
	(403)	(391)
Total tax on profit	(321)	51

The tax assessed for the period is lower (2016: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2017 £'000	2016 £'000
Profit before taxation	1,531	4,721
Profit multiplied by standard rate of corporation tax in the UK of 20.00% (2016: 20.11%)	306	949
Effects of:		
Expenses not deductible for tax purposes	228	231
Group relief claimed not paid for	(909)	(709)
Effects of gains covered by s171A (including rollover reliefs)	-	(79)
Adjustments in respect of previous periods	(4)	(336)
Tax rate changes	58	(5)
Total tax (credit) / charge for the period	(321)	51

UK deferred tax is recognised at the rate of 17% (2016: 18%).

Deferred tax has been valued based on the substantively enacted rates at the balance sheet date at which it is expected to reverse.

The Finance Act 2015 reduced the main rate of corporation tax in the UK from 20% to 19% with effect from 1 April 2017. Further reductions to the UK main rate were also included, lowering the rate to 17% from 1 April 2020.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

8 Tangible assets

	Leasehold improvements £'000	Plant and machinery £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 21/02/2016	38,440	3,758	8,566	16,622	67,386
Additions	941	84	161	1,205	2,391
Disposals	(75)	(1,256)	(2,436)	(4,539)	(8,306)
Reclassifications	-	-	(3,512)	-	(3,512)
At 19/02/2017	39,306	2,586	2,779	13,288	57,959
Accumulated depreciation					
At 21/02/2016	17,090	2,937	7,227	9,611	36,865
Charge for the period	2,507	436	285	1,685	4,913
Disposals	(61)	(1,247)	(2,434)	(4,524)	(8,266)
Reclassifications	-	-	(2,615)	-	(2,615)
At 19/02/2017	19,536	2,126	2,463	6,772	30,897
Net book value					
At 19/02/2017	19,770	460	316	6,516	27,062
At 21/02/2016	21,350	821	1,339	7,011	30,521

Depreciation for the period is charged to administrative expenses within the Profit and Loss Account.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

9 Intangible assets

	Computer software £'000
Cost	
At 21/02/2016	1,703
Additions	400
Disposals	(250)
Reclassifications	3,512
At 19/02/2017	5,365
Accumulated amortisation	
At 21/02/2016	1,005
Charge for the period	958
Disposals	(246)
Reclassifications	2,615
At 19/02/2017	4,332
Net book value	
At 19/02/2017	1,033
At 21/02/2016	698

Amortisation for the period is charged to administrative expenses within the Profit and Loss Account.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

10 Investments

	Group companies
	£
Cost	
At 21 February 2016 and 19 February 2017	2
Net book value	
At 21 February 2016 and 19 February 2017	2

The Company has the following subsidiary:

Subsidiary undertaking	% Ownership of ordinary shares	Country of incorporation	Principal activity
Hobbycraft Superstores Limited	100	UK	Dormant

The dormant subsidiary (Hobbycraft Superstores Limited) is exempt from preparing and filing individual financial statements by virtue of s394A and s448A of the Companies Act 2006. The directors believe that the carrying value of the investment is supported by its underlying net assets.

The registered office of the subsidiary undertaking is:

7 Enterprise Way
Aviation Park
Bournemouth International Airport
Hurn, Christchurch
Dorset
BH23 6HG

11 Inventories

	2017	2016
	£'000	£'000
Goods for resale	29,090	26,067

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

12 Debtors

	2017	2016
	£'000	£'000
Trade debtors	546	40
Amounts owed by Group undertakings	1,188	1,116
Other debtors	575	554
Prepayments and accrued income	4,989	3,944
Corporation tax	324	-
Deferred taxation (see note 16)	354	-
	7,976	5,654

Amounts owed by Group undertakings are interest free, unsecured and repayable on demand.

A deferred tax asset has been recognised in respect of fixed asset timing differences expected to be realised after more than one year.

13 Creditors – amounts falling due within one year

	2017	2016
	£'000	£'000
Trade creditors	13,759	11,528
Amounts owed to Group undertakings	3,488	4,550
Other taxation and social security	4,182	3,360
Corporation tax	-	442
Other creditors	4,636	4,688
Accruals and deferred income	3,688	4,964
	29,753	29,532

Amounts owed to Group undertakings are interest free, unsecured and repayable on demand.

14 Creditors – amounts falling due after more than one year

	2017	2016
	£'000	£'000
Accruals and deferred income	4,191	3,330

Accruals and deferred income falling due after more than one year relate to lease incentives which are expected to be amortised to the profit and loss account over the remaining term of the leases.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

15 Provisions for liabilities

The provision in the financial statements is as follows:

	Dilapidations provision
At 21 February 2016 and 19 February 2017	40

The provision for dilapidations was set up in respect of the expected costs of repair that would arise on the exit of a leased site, which is not expected to be until at least 2020.

16 Deferred taxation

Deferred taxation provided in the financial statements is as follows:

	2017	2016
	£'000	£'000
Accelerated capital allowances	(340)	74
Short term timing differences	(14)	(25)
	(354)	49

The movement on the provision for deferred taxation is as follows:

	£'000
At 21 February 2016	49
Deferred tax charge in Profit and Loss Account for the period	(317)
Adjustments in respect of previous periods	(86)
At 19 February 2017	(354)

The net deferred tax asset is expected to increase over the next 12 months. This primarily relates to further timing differences arising on fixed assets.

17 Pensions and similar obligations

The Company makes contributions on behalf of a number of employees and four directors (2016: five) to several defined contribution schemes. The assets of the schemes are held separately from those of the Company. Catriona Marshall, Matthew Moore and William Newton (resigned 6 August 2015) were employed and paid by Hobbycraft Group Limited, the Company's ultimate parent and their pension contributions are disclosed in those financial statements.

The pension charge, representing contributions payable by the Company to such schemes, including in respect of redundancy payments, amounted to £300k (2016: £287k).

Contributions totalling £49k (2016: £45k) were payable at the period end and are included in creditors.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

18 Share based payments

The Company participates in two share based payment schemes operated by the Group: the Executive Scheme and the Hobbycraft Share Offer Plan. Each scheme is equity settled.

All of the shares held were issued at market value. A charge is recognised in the Profit and Loss Account in reference to the fair value at the date at which the shares are granted. The charge in respect of awards granted is spread over the vesting period, which reflects management's expectation of the date of change of control of the Group. The Profit and Loss Account is also charged with the change in expected cost relating to the estimate at the balance sheet date of the number of leavers likely to arise before any change in control of the Group. These charges to the Profit and Loss Account are recognised in equity in the share-based payments reserve.

The weighted average fair value of the shares under the schemes was calculated at the date of grant using the Black-Scholes option pricing model. Expected share price volatility was determined through the assessment of the historical volatility of a comparable group of companies over a period consistent with the expected life of the scheme. This aims to be indicative of future trends, but may not necessarily reflect the actual outcome. The expected life of the scheme is based on management's estimated date of a change of control of the Group and is not necessarily indicative of exercise patterns that may occur. The inputs into the model are shown within each scheme's disclosure.

Executive Scheme

There were no shares granted to employees of the Company in the current period (2016: nil).

Hobbycraft Share Offer Plan

Under the share scheme, Hobbycraft Group Limited Employee Benefit Trust (EBT) holds a certain number of shares of which certain employees have acquired the beneficial ownership since August 2010. The share scheme operates as an equity settled arrangement under which employees would be required to sell their shares in the event of a sale or listing of the Group.

The following table lists the inputs to the model for each grant made throughout the current and prior periods.

Date of grant	01/02/2017	23/12/2015
Weighted average share price	0.1p	0.1p
Exercise price	0.1p	0.1p
Expected volatility (%)	30.28%	37.40%
Expected life (years)	3	2
Dividend yield (%)	0.00%	0.00%
Risk-free interest rate (%)	0.70%	0.35%

The weighted average share price for the grants throughout the period and at the end of the period was 0.1p (2016: 0.1p).

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

18 Share based payments (continued)

Effect on the financial statements

The effect of accounting for share based payments relating to all schemes on the Company's profit before taxation is as follows:

	2017	2016
	£'000	£'000
Equity settled share based payment (credit) / charge	(3)	5

Management have concluded that the use of the Black-Scholes model provides a reasonable assessment of the value of shares.

19 Called up share capital

	2017	2016
	£'000	£'000
Authorised		
7,500 (2016: 7,500) ordinary shares of £1 each	8	8
1,650 (2016: 1,650) "A" ordinary shares of £1 each	2	2
	10	10
Allotted and fully paid		
6,600 (2016: 6,600) ordinary shares of £1 each	7	7
1,376 (2016: 1,376) "A" ordinary shares of £1 each	1	1
	8	8

The ordinary shares carry rights to vote and attend at general meetings and entitle the holder to receive dividends. Upon a winding up or other return of capital or assets to members of the Company, the holders of the ordinary shares are entitled to a payment of the surplus assets up to the reserved value and thereafter are entitled to a payment pro rata with the holders of the "A" ordinary shares.

The "A" ordinary shares do not entitle the holders to any right to receive notice of or to attend or to vote at any general meeting of the Company, nor to receive any dividend or other distribution of profits. Upon a winding up or other return of capital or assets to members of the Company, the holders of the "A" ordinary shares are entitled to a payment only to the extent that surplus assets exceed the reserved value.

No dividends have been proposed or paid during the period (2016: nil).

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

20 Commitments under operating leases

The Company had minimum lease payments under non-cancellable operating leases as set out below:

	Land and buildings	Other	Total	Land and buildings	Other	Total
	2017	2017	2017	2016	2016	2016
Payment due:	£'000	£'000	£'000	£'000	£'000	£'000
Not later than 1 year	21,201	106	21,307	20,132	88	20,220
Later than 1 year and not later than 5 years	77,434	62	77,496	75,424	36	75,460
Later than 5 years	37,796	-	37,796	46,164	-	46,164
Total	136,431	168	136,599	141,720	124	141,844

21 Capital commitments

At 19 February 2017 the Company had no capital commitments (2016: nil).

22 Contingent liabilities

At 19 February 2017 the Company had no contingent liabilities (2016: nil).

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2017

23 Related party transactions

Transactions with shareholders

Haskins Holdings Limited and Hobbycraft Trading Limited have previously had shareholders in common.

Warren G. Haskins is a director of Haskins Garden Centres Limited and was a director of Hobbycraft Trading Limited until 29 April 2010.

Haskins Garden Centres Limited charged Hobbycraft Trading Limited £556k (2016: £822k) in the period in property rentals and overhead recharges.

At 19 February 2017 £nil (2016: £1,500) was due from Haskins Garden Centres Limited to Hobbycraft Trading Limited and £22k (2016: £31k) was due from Hobbycraft Trading Limited to Haskins Garden Centres Limited.

At 19 February 2017 £66k (2016: £107k) was due from Hobbycraft Trading Limited to Inspired Thinking Group, which is ultimately owned by Bridgepoint. During the period, Hobbycraft Trading Limited made payments of £880k (2016: £813k) to Inspired Thinking Group.

At 19 February 2017 £nil (2016: £nil) was due to Estera Trust (Jersey) Limited (formerly Appleby Trust (Jersey) Limited), which is ultimately owned by Bridgepoint. During the period Hobbycraft Trading Limited made payments of £8k (2016: £9k) to Estera Trust (Jersey) Limited.

Transactions with Private Equity investors

Monitoring fees of £150k (2016: £150k) payable to Bridgepoint Advisers Limited were charged to the Profit and Loss Account in the 52 weeks ended 19 February 2017.

Transactions with other Group companies have not been disclosed, in accordance with the exemption permitted by paragraph 33.1A of FRS 102 'Related Party Disclosures'. There were no other related party transactions which require disclosure in accordance with FRS 102 'Related Party Disclosures'.

24 Controlling party

The Company's immediate parent undertaking is Stitch Bidco Limited.

Hobbycraft Group Limited is the ultimate parent and is the smallest and largest group in which the results of the Company were consolidated. The financial statements of Hobbycraft Group Limited can be obtained from 7 Enterprise Way Aviation Park, Bournemouth International Airport, Hurn, Christchurch, Dorset, BH23 6HG.

The ultimate controlling party is the Bridgepoint Europe IV Private Equity Fund, which is in turn managed by Bridgepoint Advisers Limited.