



HOBBYCRAFT TRADING LIMITED

Annual Report

For the 52 weeks ended 17 February 2019

Registered number: 00806269



Hobbycraft Trading Limited

Annual Report for the 52 weeks ended 17 February 2019

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Hobbycraft Trading Limited

Directors and Advisors

Directors	Dominic Jordan Russell Harrison Katherine Paterson
Registered office	7 Enterprise Way Aviation Park Bournemouth International Airport Hurn, Christchurch Dorset BH23 6HG
Independent auditor	KPMG LLP Chartered Accountants and Statutory Auditors Gateway House Tollgate Chandlers Ford SO53 3TG
Solicitor	Travers Smith LLP 10 Snow Hill London EC1A 2AL
Banker	Lloyds Bank plc 25 Gresham Street London EC2V 7HN

Hobbycraft Trading Limited

Strategic Report for the 52 weeks ended 17 February 2019

The directors present their Strategic Report together with the audited financial statements for the 52 weeks ended 17 February 2019.

Principal activities

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 ongoing review by management. Compliance with regulation, health and safety, legal and ethical standards is a high priority for the Company and the Board take on an important oversight role in this regard.

The Company has developed a framework for identifying the risks that it is exposed to and their impact on the Company's ability to achieve its business objectives, protect its reputation and drive shareholder value. This process provides a clear structure for managing risk across the Company and ensures significant risks are understood and visible to senior management, including the Board.

It should be noted that any system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The principal risks for our business arise from supply chain disruption, product obsolescence, sub-standard product quality, foreign currency risk, information security and data protection.

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 product coverage, there is sufficient interest, including from online specialists within individual categories, to ensure that there is a continual focus on 'value' as an important differentiating factor. This focus is even more important following the post-Brexit devaluation of Sterling and the broader uncertain economic environment.

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, who continue to benefit from our evolving specialist products, while also inspiring a new generation of customers through more accessible pricing and inspiring product selection coupled with an improved choice of demonstrations, workshops and video content.

Furthermore, our SKU reduction programme has helped to rationalise our range and build a simpler, better and cheaper business through the removal of more than 10,000 of our slowest-moving lines over the last few years. This remains an area of focus for the business to improve margin and drive efficient use of working capital.

The Company is also focused on multi-channel growth as we seek to better serve our customers' needs. The Company employs a robust selection process with regards to the opening of new stores and will continue to open new smaller format stores in relevant locations across the United Kingdom to drive profitability and brand awareness. This is coupled with the aim of increasing E-commerce participation to 20% of Company sales and beyond as we continue to grow both online sales and profitability through further digital investment, improving our online experience and offering.

Hobbycraft Trading Limited

Strategic Report (continued) for the 52 weeks ended 17 February 2019

Alongside the growth in our Click and Collect proposition we also continue to drive footfall to stores through an increase in our in-store demos and workshops which provide inspiration to customers in the local community and allow our colleagues to demonstrate their incredible knowledge and passion for crafting, together with great service. Our multi-channel aspirations are also supported by our growing social media community and our Hobbycraft Club which has 3.9 million loyal members.

Our ability to achieve our strategic objectives is under-pinned by our greatest asset, our people. Colleague engagement is therefore fundamental to our success, as we seek to become the employer of choice within the market.

Review of the business

The financial statements for the period ended 17 February 2019 (FY19) are set out from page 12.

The results for FY19 show another strong period of growth with an improvement in sales and underlying profitability despite the challenging UK retail environment. Revenue increased by £9.2m (+5.4%) to £177.7m driven by the net increase in stores and Ecommerce growth of £3.8m or +22.7%.

The expansion of our store footprint included the opening of new stores in Lincoln, Rugby, Brighton, Banbury and Rushden Lakes but we also closed our underperforming store in Bicester taking our total store network to 94 at the end of the year.

Our continued focus on product improvement and effective stock management meant we improved our Trading Gross Margin¹ rate to 55.8% from 54.7% in the prior period. This more than offset the impact of margin rate dilution as we continue to grow our E-commerce participation, which increased to 11.6% of the total Company from 9.9% last year. The higher distribution costs and variable cost model of the E-commerce channel are offset by a lower fixed cost base within operating expenses meaning it drives higher net profitability.

Our focus on cost control and driving operational efficiency combined with the strong multi-channel growth resulted in Adjusted EBITDA² of £12.1m, an increase of £2.7m (+28.7%) on the prior period. Management have adopted the KPI of Adjusted EBITDA following the increased significance of non-trading items such as share based payments (see note 19) in order to provide the most meaningful measure of underlying trading performance.

Closing cash and cash equivalents increased by £5.0m (+22.4%) to £27.3m, driven by the improvement in underlying profitability. Closing inventory increased by £4.6m (+16.9%) due to the increase in trading space, the impact of foreign currency following the devaluation of Sterling and the planned investment into certain product categories to optimise profitability. However, stock continues to be well managed with average net stock per store declining to £190.4k (2018: £191.6k).

The movement in working capital also included an increase in payables driven by an increase in trade creditors and stock accruals related to the corresponding increase in inventory, an increase in employment related liabilities due to the increase in headcount from new stores and an increase in VAT liability due to the increase in sales. The increase in receivables was driven by an increase in supplier volume rebates and rates rebates outstanding at the period end.

Customer satisfaction (measured by Net Promoter Score) and Colleague engagement also both improved in the period to 85.9% and 90% respectively.

¹ Trading Gross Profit/Margin excludes the movements in fair value of financial instruments as management consider that this represents the underlying margin performance of the Company, excluding the impact of the marking to market of outstanding forward contracts.

² Management consider that Adjusted EBITDA reflects the trading performance of the Company, excluding the impact of capital investment. Adjusted EBITDA is operating profit/(loss) before exceptional items, share based payment charge or credit, the movements in fair value of financial instruments, any impairment charge or write back of tangible and intangible assets, any income statement charge or credit in relation to the onerous lease provision, shareholder monitoring fees, depreciation and amortisation.

Hobbycraft Trading Limited

Strategic Report (continued) for the 52 weeks ended 17 February 2019

Key performance indicators ('KPIs')

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

	2019	2018
Retail sales	£177.7m	£168.5m
Trading Gross Margin %	55.8%	54.7% ¹
Adjusted EBITDA	£12.1m	£9.4m ¹
LFL growth (including E-commerce)	2.0%	3.9%
Average net stock per store (excluding Distribution Centre)	£190.4k	£191.6k
Cash at bank and in hand	£27.3m	£22.3m
Customer satisfaction (Net Promoter Score) ²	85.9%	82.4%
Colleague engagement	90.0%	87.7%

¹ Restated to reflect a change in accounting policies explained in note 1.

² Net Promoter Score (NPS) 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, colleagues 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.

In FY19 we launched our internal Sustainability Commitment with our colleagues across our stores, distribution centre and support office. As a Company, we are committed to becoming more sustainable as we grow, with a focus on colleague wellbeing, our store communities and the way we use our buying power to drive positive change.

Particular highlights in FY19 include:

- Backhauling all store waste to our distribution centre for recycling with 1,358 tonnes recycled last year
- Introducing biodegradable glitter into our range
- Training qualified Mental Health First Aiders across all channels and levels of the business
- Launching the Employee Assistance Programme which is facilitated by the Retail Trust and provides support for colleagues with regards to their financial, legal and emotional wellbeing
- Continued fundraising for our chosen charity, Together for Short Lives, with over £1m raised since the start of our partnership together

Going forwards, we remain committed to continue to reduce our impact on the environment, support our colleagues and chosen charities, and ensure that we maintain integrity through our ethical sourcing and vendor partnerships.

Hobbycraft Trading Limited

Strategic Report (continued) for the 52 weeks ended 17 February 2019

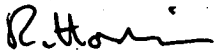
Future developments

We continue to execute against our plans of multi-channel growth and range improvement. We are pursuing our strategy of improving 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 craft enthusiasts.

This plan is underpinned by our focus on great customer service and colleague engagement. We seek to provide inspiration to customers in the local communities we serve and allow our colleagues to demonstrate their incredible knowledge and passion for crafting.

The retail environment in the UK remains challenging, however, we are well placed to deliver on our growth plans, with initial trading in the first half ahead of the prior year.

On behalf of the Board



Russell Harrison

11 November 2019

Hobbycraft Trading Limited

Directors' Report for the 52 weeks ended 17 February 2019

The directors present their report and the audited financial statements for the 52 weeks ended 17 February 2019. The comparative period was the 52 weeks ended 18 February 2018. 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 better 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 do not consider interest rate risk to be significant given that the interest rate on the Investor loan notes is fixed until 3 May 2023 and 99.46% of the loan notes in issue by the Group at 17 February 2019 were held by the majority shareholders. 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 22% of purchases by value) are denominated in US Dollars, with a smaller proportion in Euros. The Company enters into forward foreign exchange contracts to manage short/medium term foreign currency requirements and limit the exposure to currency volatility between the US Dollar, Euro and Sterling. Realised gains and losses from settled forward foreign exchange contracts are recorded within cost of sales, along with the unrealised marking to market of forward foreign exchange contracts that remain outstanding at the period end.

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 a net cash position of £27.3m at period end and also has access to £6.0m of banking facilities, including a £2.5m overdraft facility which was not utilised during the financial year. There is a covenant attached to the banking facility requiring a minimum EBITDA of £6.5m for each rolling 12 month period. The covenant is tested quarterly and there have been no breaches during the financial year.

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 a number of factors including the protracted Brexit negotiations, National Minimum/Living Wage legislation and cost inflation will have some impact on consumer spending in the short/medium term but the full impact is unknown.

Corporate Governance

A key element of our Corporate Governance is to ensure that we are compliant with all current and new legislation. Senior management actively monitor changes to legislation and work with our suppliers and advisors, where necessary, to ensure that appropriate steps are taken to adapt our working practices or processes and ensure compliance.

Hobbycraft Trading Limited

Directors' Report (continued) for the 52 weeks ended 17 February 2019

Employee policy

It is essential to the success of the Company 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 ongoing 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 scheme for senior managers to encourage the involvement of these colleagues in the Company's performance.

Across our stores, distribution centre and support offices we are committed to equal and fair working practices, ensuring no job applicant or team member is discriminated against, directly or indirectly, on grounds of disability, gender, nationality, ethnic or racial origins, marital status, religious belief, political opinion, age or sexual orientation. It's our policy to give equal opportunity of employment and career development to disabled and able persons according to their suitability to perform the work required and the services of existing colleagues who become disabled are retained whenever practicable.

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 (2018: 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;
- 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 17 February 2019 (2018: £12,276k).

Political donations

The Company made no political donations during the period ended 17 February 2019 (2018: 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:

Dominic Jordan
Katherine Paterson
Matthew Moore
Russell Harrison

Resigned 4 May 2018
Appointed 15 April 2019

Qualifying third party indemnity provisions

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

Hobbycraft Trading Limited

Directors' Report (continued) for the 52 weeks ended 17 February 2019

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.

Independent auditors

KPMG 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 annual report and 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 and 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.

Hobbycraft Trading Limited

Directors' Report (continued) for the 52 weeks ended 17 February 2019

Going concern

The Company balance sheet shows net assets of £51.5m (2018: net assets £45.4m).

The directors believe that this, together with £27.3m of net cash held in the Company, a £6m Working Capital facility and the forecast trading performance and projected cash generation of the Company make the preparation of the Company financial statements on a going concern basis appropriate.



Russell Harrison

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

11 November 2019

Hobbycraft Trading Limited

Independent Auditors' Report to the members of Hobbycraft Trading Limited

Opinion

We have audited the financial statements of Hobbycraft Trading Limited ("the Company") for the year ended 17 February 2019 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 17 February 2019 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations; and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Strategic report and directors' report

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

Hobbycraft Trading Limited

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

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

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

Natasha Jones

Natasha Jones (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Tollgate
Chandler's Ford
SO53 3TG

12 November 2019

Hobbycraft Trading Limited

Profit and Loss Account for the 52 weeks ended 17 February 2019

		2019	Exceptional items and fair value gain/(loss) on financial instruments	2019	2018 (restated)	Exceptional items and fair value gain/(loss) on financial instruments	2018 (restated)
	Note	£'000	£'000	£'000	£'000	£'000	£'000
		Trading results		Total	Trading results		Total
Revenue	2	177,693	-	177,693	168,515	-	168,515
Cost of sales	3	(78,606)	1,178	(77,428)	(76,313)	(1,178)	(77,491)
Gross profit		99,087	1,178	100,265	92,202	(1,178)	91,024
Operating expenses (before depreciation, amortisation, share based payments and monitoring fees)	3	(87,012)	-	(87,012)	(82,818)	(852)	(83,670)
Adjusted EBITDA		12,075	1,178	13,253	9,384	(2,030)	7,354
Depreciation and amortisation	3	(6,167)	-	(6,167)	(5,988)	-	(5,988)
Share based payments	19	(83)	-	(83)	4	-	4
Monitoring fees		(150)	-	(150)	(150)	-	(150)
Operating profit		5,675	1,178	6,853	3,250	(2,030)	1,220
Finance income	6	85	-	85	36	-	36
Finance costs	7	(76)	-	(76)	(73)	-	(73)
Profit before taxation		5,684	1,178	6,862	3,213	(2,030)	1,183
Tax on profit	8	(907)	-	(907)	89	-	89
Profit for the financial year		4,777	1,178	5,955	3,302	(2,030)	1,272

All amounts relate to continuing activities. For details of the restatement, refer to note 1.

The notes on pages 15 to 37 form part of these financial statements.

Hobbycraft Trading Limited
Balance Sheet as at 17 February 2019

Company number: 00806269

		17 February 2019 £'000	18 February 2018 (restated) £'000
	Note		
Fixed assets			
Intangible assets	9	551	729
Tangible assets	10	25,095	27,234
		25,646	27,963
Current assets			
Inventories	12	32,023	27,396
Debtors (including £643k (2018: £552k) due after more than one year for deferred tax)	13	7,223	6,804
Cash and cash equivalents		27,342	22,338
		66,588	56,538
Creditors: amounts falling due within one year	14	(32,035)	(31,370)
Net current assets		34,553	25,168
Total assets less current liabilities		60,199	53,131
Creditors: amounts falling due after more than one year	15	(8,705)	(7,675)
Provision for liabilities	16	(40)	(40)
Net assets		51,454	45,416
Capital and reserves			
Called up share capital	20	8	8
Capital redemption reserve		1	1
Capital contribution reserve		88	5
Profit and loss account		51,357	45,402
Total shareholders' funds		51,454	45,416

The financial statements on pages 12 to 37 were approved by the Board of Directors, authorised for issue on 11 November 2019 and signed on its behalf by:



Russell Harrison

Hobbycraft Trading Limited

Statement of Changes in Equity for the 52 weeks ended 17 February 2019

	Called up share capital	Capital redemption reserve	Capital contribution reserve	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
As at 19 February 2017	8	1	9	56,406	56,424
Profit for the financial year	-	-	-	1,272	1,272
Share based payment credit	-	-	(4)	-	(4)
Dividends	-	-	-	(12,276)	(12,276)
As at 18 February 2018	8	1	5	45,402	45,416
Profit for the financial year	-	-	-	5,955	5,955
Share based payment charge	-	-	83	-	83
Dividends	-	-	-	-	-
As at 17 February 2019	8	1	88	51,357	51,454

Hobbycraft Trading Limited

Notes to the Financial Statements for the 52 weeks ended 17 February 2019

1 Accounting policies

Statement of compliance

Hobbycraft Trading Limited is a private company limited incorporated, domiciled and registered in England. The registered number of the company is 00806269 and the registered address is Hobbycraft Head Office, 7 Enterprise Way, Aviation Business Park, Christchurch, Dorset, BH23 6HG.

The Company's financial statements have been prepared on a going concern basis 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 17 February 2019.

Basis of accounting

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments that are recognised at fair value through the profit or loss. The financial statements are prepared in Sterling, which is the functional currency, and are rounded to the nearest £'000.

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.

In addition, the Company has taken advantage of the exemption, under FRS 102 para 33.7 from disclosing key management compensation, on the basis that it is a qualifying entity and its ultimate parent company, Hobbycraft Group Limited, includes the Company's key management compensation in its own consolidated financial statements.

Finally, as the consolidated financial statements of Hobbycraft Group Limited include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of providing a reconciliation of the number of shares outstanding from the beginning to end of the period, as well as certain disclosures required by FRS 102.26 Share Based Payments.

The Company's accounting policies have been applied consistently.

Going concern

The Company's forecasts and projections, taking account of reasonable variations in trading performance, show that the Company will be able to operate within the level of its current cash balances and banking 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.

Prior year restatement

Two adjustments have been made to the prior year accounts during the 52 weeks ended 17 February 2019 as explained below.

Firstly, in the prior year the Company recorded gains and losses from derivative financial instruments for forward foreign currency contracts and revaluation gains and losses on foreign currency cash and cash equivalents within finance income and costs. During the period ended 17 February 2019, the Company's accounting policy has been changed such that gains and losses from derivative financial instruments for forward foreign currency contracts and revaluation gains and losses on foreign currency cash and cash equivalents are now recognised in cost of sales.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

In the Board's view this enables the Company to improve the understanding of the trading performance of the business and management's response to mitigating foreign currency risk that arises directly from the purchase of overseas inventory denominated in US Dollars and Euros. It provides consistency with the revaluation of foreign currency trade creditors (which is recognised within cost of sales) on the basis that foreign currency cash is only held and utilised for the purpose of settling those foreign currency trade creditors.

Secondly, in prior years the Company recorded certain capital contribution lease incentives receivable from landlords within tangible assets to net against the related investment cost incurred by the Company. The capital contributions were then amortised on a straight-line basis over the lease term with the credit being netted against the associated depreciation expense within operating expenses, which was therefore excluded from EBITDA as reported in the prior year.

During the period ended 17 February 2019, the Company decided to amend the presentation to better reflect the substance of these capital contribution lease incentives as deferred income (in line with other lease inducements receivable on entering an operating lease) and released to the income statement on a straight-line basis over the lease term. The amortisation of lease incentives is recognised within operating expenses and is included in the calculation of Adjusted EBITDA along with the amortisation of other lease incentives.

The impact of both adjustments on the prior year accounts is outlined below.

Profit and Loss Account

	2018 (reported)	Reclassify Cash Foreign Exchange Losses	Reclassify Fair Value Movement on Financial Instruments	Reclassify Lease Incentives	2018 (restated)
	£'000	£'000	£'000	£'000	£'000
Cost of sales	(75,658)	(283)	(1,550)	-	(77,491)
Finance costs	(1,906)	283	1,550	-	(73)
Depreciation and amortisation	(5,733)	-	-	(255)	(5,988)
Operating expenses (before depreciation, amortisation, share based payments and monitoring fees)	(83,925)	-	-	255	(83,670)

Balance Sheet

	2018 (reported)	Reclassify Lease Incentives	2018 (restated)
	£'000	£'000	£'000
Tangible assets	24,121	3,113	27,234
Accruals and deferred income falling due within one year	(3,651)	(367)	(4,018)
Accruals and deferred income falling due after more than one year	(4,929)	(2,746)	(7,675)

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

Critical accounting estimates, judgements and assumptions

Estimates, judgements and assumptions 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 Company makes estimates, judgements and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The only significant estimates, judgements and assumptions applied within the Company are in relation to share based payments and exceptional items.

The estimates and assumptions that have a significant risk of causing a material adjustment are discussed below:

(a) Inventory provisions

Provisions are made for stock loss at stores incurred from the date of the last full count to the period end. Provisions are made on a store by store basis and at a product category level, applied as a percentage of sales since the last full count for each product category. The percentage of sales is estimated based on historical shrink rates, adjusted if necessary to reflect any known change in circumstances.

(b) Gift card and gift voucher adjustment

An adjustment is made to reflect the fact that a proportion of the gift cards and gift vouchers in issue is not anticipated to be redeemed by customers. The adjustment is estimated based on historical redemption rates, with a different percentage applied dependent on the time that has elapsed since each gift card or gift voucher was last involved in a transaction.

(c) Impairment of tangible and intangible assets

The Company considers whether tangible and intangible assets are impaired. Where an indication of impairment is identified the estimation of the recoverable amount of the cash-generating units are determined based on the higher of value in use or fair value less costs to sell. This requires estimation of future cash flows and selection of appropriate discount rates to calculate their net present value.

(d) Share based payments

The Company operated two share based payment schemes during the period: the Hobbycraft Share Offer Plan and the Executive Scheme. As the shares within the scheme could benefit from both cash and equity-settled value, management must exercise judgement to determine which outcome is the most probable for determining the appropriate accounting treatment.

Management are also 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 Company. The share based payment charge is recognised in each period as it is incurred, based on a fair value model. The key assumptions of this model for each scheme are presented in note 19.

(e) Tax judgements

At each financial period end, judgement is required in determining the Company provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Tax provisions are recognised for uncertain tax positions where the amount of tax payable on open tax positions remains to be agreed with relevant tax authorities. The Company provides for uncertain tax positions based on the best estimate of the most likely outcome in respect of the relevant issue.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

Where the final tax outcome on uncertain tax positions is different from the amounts that were initially recorded, the difference will impact the Company's current and deferred tax assets and liabilities in the period in which such determination is made, as presented in note 8.

Deferred tax assets and liabilities require judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised, taking into account the expected timing and level of future taxable profits of the Company. Deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

(f) Exceptional items

The Company applies judgement in identifying the significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Company's underlying business performance. See note 3 for a description of exceptional items.

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue represent amounts received and receivable for goods provided to customers outside the Company, stated net of returns, staff or other discounts, and value added taxes.

The Company recognises revenue when the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the entity and when goods are delivered and title is passed. E-commerce sales are recognised when the goods are received by the customer.

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

It is the Company's policy to sell its products to the end customer with a right of return. Refund accruals are estimated based on accumulated experience. The Company bases its estimates on historical results, the type of transaction and the specifics of each arrangement.

Cost of sales

Cost of sales consists of expenses incurred in bringing products to a saleable position and condition. Such costs principally include purchasing of products from suppliers, packaging and freight.

In addition, cost of sales also includes rebate income from suppliers. Volume based rebates are recognised when contractually agreed volume thresholds are expected to be met. The amount of rebate recognised is the proportion of the total rebate due based on actual volumes purchased in the year, which is credited to cost of sales for the proportion of stock sold in the year and credited as an adjustment to inventories for any proportion of unsold stock. Rebate income is also received from suppliers to support the funding of promotional discounts to clear excess stock which is recognised based on the volume of products sold at the agreed discount.

New store opening contributions are also received from suppliers based on an agreed fee per store and are recognised on opening of the new stores.

Credit card charges are presented within operating expenses.

Exceptional items

Significant items of income and expense that are not considered in the ordinary course of business are disclosed in the Adjusted EBITDA reconciliation as exceptional items. The separate reporting of exceptional items helps provide an indication of the Company's underlying business performance.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

Finance income and finance costs

The main components of finance income and costs are interest income on cash deposits and fees payable on banking facilities.

Tangible assets and depreciation

Tangible assets are included at cost, less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Subsequent costs are depreciated over the asset's remaining useful economic life. The carrying amount of a replaced part is derecognised.

All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

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	5 - 25 years
Plant and machinery	3 - 10 years
Fixtures and fittings	3 - 10 years
Computer equipment	3 - 5 years

Leasehold improvements are depreciated over the life of the remaining term of the lease. Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

Gains and losses on disposals are determined by comparing the proceeds of disposal with the net carrying amount and are included in the income statement. The Company assesses at each reporting date whether tangible fixed assets are impaired.

Intangible assets and amortisation

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight line basis over their estimated useful life. Intangible assets are amortised from the date they are available for use. 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. Intangible assets are tested for impairment in accordance with Section 27 'Impairment of assets' when there is an indication that the intangible asset may be impaired.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

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 direct costs incurred in bringing inventories to their current location and condition such as transport and handling costs, plus an attributable proportion of distribution overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less further costs to be incurred to disposal.

Provisions are made where necessary for obsolete, slow moving and defective stocks and shown net of cost. The provision charge or reversal is recognised within cost of sales.

Provision policy

Provisions are recognised when the Company has a present legal or constructive 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

Where an arrangement is dependent on the use of a specified asset or assets, or conveys the right to use an asset, it is determined to contain a lease although this may not be its legal form. The lease element of the arrangement is accounted for as either a finance or operating lease.

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. The Company does not have any finance leases. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Rent free periods, capital contributions and other lease inducements receivable on entering an operating lease are recognised as deferred income and released to the income statement on a straight-line basis over the lease term or to the break clause, whichever best reflects the economic benefit of the lease.

Taxation

The taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case tax is also recognised in other comprehensive income or directly in equity as appropriate.

Current taxation

Current tax is the amount of income tax payable in respect of the taxable profit for the financial year or prior financial years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

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.

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

Transactions in foreign currencies, which are those other than the functional currency of an entity, are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date. Resulting exchange gains or losses are recognised in profit or loss in the same place as the underlying transaction.

Foreign exchange gains and losses that relate to cash and cash equivalents, debtors and creditors are presented in profit or loss within cost of sales.

Financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances, and loans to fellow Group companies, are initially recognised at transaction price plus attributable transaction costs, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method, less any impairment losses.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss within operating expenses.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss within operating expenses.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

Financial liabilities

Basic financial liabilities, including trade and other payables, and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Trade and other payables are subsequently carried at amortised cost, using the effective interest rate method.

Interest-bearing borrowings are carried at amortised cost using the effective interest method, less attributable transaction costs and any impairment losses. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Derivatives, including forward foreign exchange contracts, are not basic financial instruments. The Company uses these derivatives to manage risks arising from changes in foreign currency exchange rates relating to the purchase of overseas sourced products. The derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the balance sheet date. Changes in the fair value of outstanding derivatives are recognised in profit or loss in cost of sales. The realised gain or loss on settled derivatives is recognised in profit or loss in cost of sales.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Cash and cash equivalents

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

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (or group of units) on a pro rata basis.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

An impairment loss is reversed only if the reasons for the impairment have ceased to apply. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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 Executive Scheme and the Hobbycraft Share Offer Plan.

On 30 November 2018, Hobbycraft Group Limited amended the terms for both schemes whereby the employees will also now be eligible to receive a cash-settled bonus on the change of control of the Group if the equity value (determined pre-shareholder debt) is within a set range on exit with a predetermined floor and ceiling valuation. This amendment provides an additional incentive for key employees to allow them to benefit from value creation in the business and to be paid proceeds ahead of the equity holders of the Group. The cash-settled payment will be allocated based on the employees' shareholding.

To the extent that value accrues to the ordinary equity shares on exit the shares under the schemes will continue to be entitled to this value alongside other equity holders, in addition to the cash-settled payment outlined above. As the shares within the schemes could benefit from both cash and equity-settled value management have used judgement to determine which outcome is the most probable for determining the appropriate accounting treatment.

Despite the fact that management deem the cash-settled payment to be the most likely outcome both share schemes continue to be accounted for as equity-settled schemes in the Company as the obligation to cash-settle exists in the ultimate parent (Hobbycraft Group Limited) and therefore the Company accounts for the schemes as equity-settled schemes with the corresponding credit to equity in the capital contribution reserve.

The fair value of these awards is measured at the date of grant using the Black-Scholes option pricing model and allocated over a vesting period to the anticipated exit date. Expected share price volatility is determined through the assessment of the historical volatility of a comparable group of companies over a period consistent with the expected life of the schemes. This aims to be indicative of future trends, but may not necessarily reflect the actual outcome. The expected life of the schemes 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.

Adjusted EBITDA

In addition to the information required by FRS 102 and to assist with the understanding of earnings trends, the Company has included within its financial statements a non-FRS 102 measure referred to as Adjusted EBITDA.

The Board consider that Adjusted EBITDA reflects the trading performance of the Company, excluding the impact of capital investment. Adjusted EBITDA is operating profit/(loss) before exceptional items, share based payment charge or credit, the movements in fair value of financial instruments, any impairment charge or write back of tangible and intangible assets, any income statement charge or credit in relation to the onerous lease provision, shareholder monitoring fees, depreciation and amortisation.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

2 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 excluding depreciation, amortisation and exceptional items are made up as follows:

	2019	2018 (restated)
	£'000	£'000
Distribution costs	37,227	35,156
Administrative expenses	50,018	47,807
	87,245	82,963

For details of the restatement, refer to note 1.

In addition to the other operating expenses, the prior year included the following exceptional items:

	2019	2018
	£'000	£'000
People costs (including re-structuring costs)	-	852
Total non-recurring costs	-	852

The non-recurring costs in the prior year include statutory and enhanced payments arising from a restructure of senior management and a provision for an employee-related matter.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

3 Operating profit (continued)

	2019	2018 (restated)
	£'000	£'000
Profit before taxation is stated after charging/(crediting):		
Loss/(Gain) on disposal of tangible assets	71	(181)
Depreciation of tangible assets	5,687	5,227
Amortisation of intangible assets	480	761
Fees payable to the Company's auditors for the audit of the Company's financial statements, including fees paid on behalf of Stitch Bidco Limited, Stitch 2 Limited and Stitch 3 Limited	58	59
Fees payable to the Company's auditors for tax compliance	-	18
Fees payable to the Company's auditors for tax advisory services	-	63
Fees payable to the Company's auditors for other services	-	5
Operating leases - plant and machinery	273	286
Operating leases - other	22,233	21,135
Fair value movement of financial instruments	(1,178)	1,178
Other exchange loss	191	107
Inventory recognised as an expense	78,415	76,650

For details of the restatement, refer to note 1.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

4 Employees

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

	2019	2018
	Number	Number
Selling and distribution	1,125	1,082
Administration	116	119
	1,241	1,201

Staff costs (for the above persons including directors):

	2019	2018
	£'000	£'000
Wages and salaries	29,125	28,129
Social security costs	1,965	1,855
Other pension costs (see note 18)	485	318
Share based payments (see note 19)	83	(4)
Total direct costs of employment	31,658	30,298

In addition to the above, costs relating to temporary and contract staff totalled £2,237k (2018: £2,139k).

5 Directors' emoluments

	2019	2018
	£'000	£'000
Emoluments (including benefits in kind)	646	659
Compensation for loss of office including payment in lieu of notice	-	158
Pension contributions to money purchase schemes	18	30
	664	847

As at the period end date, two (2018: three) directors held shares under a long term incentive plan.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

5 Directors' emoluments (continued)

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

	2019	2018
	£'000	£'000
Emoluments (including benefits in kind)	343	286
Pension contributions to money purchase schemes	9	16
	352	302

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

During the period benefits were accruing to three (2018: five) directors under defined contribution schemes.

6 Finance income

	2019	2018
	£'000	£'000
Interest receivable on bank deposits	85	36

7 Finance costs

	2019	2018 (restated)
	£'000	£'000
Interest payable on overdrafts and bank loans	76	73

For details of the restatement, refer to note 1.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

8 Tax on profit

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax on profits for the period	739	109
Adjustments in respect of previous periods	259	-
	998	109
Deferred tax:		
Origination and reversal of timing difference	(112)	(212)
Adjustments in respect of previous periods	9	(9)
Effect of changes in tax rates	12	23
	(91)	(198)
Total tax on profit	907	(89)

The tax assessed for the period is lower (2018: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2019 £'000	2018 £'000
Profit before taxation	6,862	1,183
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2018: 19.11%)	1,304	226
Effects of:		
Expenses not deductible for tax purposes	167	146
Group relief claimed not paid for	(844)	(524)
Effects of gains covered by s171A (including rollover reliefs)	-	49
Adjustments in respect of previous periods	268	(9)
Re-measurement of deferred tax – change in UK tax rate	12	23
Total tax charge/(credit) for the period	907	(89)

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. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

9 Intangible assets

	Computer software
	£'000
Cost	
At 18/02/2018	3,855
Additions	334
Disposals	(129)
At 17/02/2019	4,060
Accumulated amortisation	
At 18/02/2018	3,126
Charge for the period	480
Disposals	(97)
At 17/02/2019	3,509
Net book value	
At 17/02/2019	551
At 18/02/2018	729

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

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

10 Tangible assets

	Leasehold improvements	Plant and machinery	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 18/02/2018 (restated)	44,634	2,643	2,638	14,737	64,652
Additions	1,642	142	244	1,559	3,587
Disposals	(291)	(21)	(272)	(121)	(705)
At 17/02/2019	45,985	2,764	2,610	16,175	67,534
Accumulated depreciation					
At 18/02/2018 (restated)	24,045	2,335	2,247	8,791	37,418
Charge for the period	3,368	155	236	1,928	5,687
Disposals	(277)	(20)	(264)	(105)	(666)
At 17/02/2019	27,136	2,470	2,219	10,614	42,439
Net book value					
At 17/02/2019	18,849	294	391	5,561	25,095
At 18/02/2018 (restated)	20,589	308	391	5,946	27,234

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

For details of the restatement, refer to note 1.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

11 Investments

	Group companies £
Cost	
At 18 February 2018 and 17 February 2019	2
Net book value	
At 18 February 2018 and 17 February 2019	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

12 Inventories

	2019 £'000	2018 £'000
Goods for resale	32,023	27,396

There is no significant difference between the replacement cost of the inventory and its carrying amount. The goods for resale values are shown net of provisions to reflect the write-down of stocks to net realisable value, which amounted to £188k at 17 February 2019 (18 February 2018: £358k). Write-downs and any reversal of write-downs are included in cost of sales.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

13 Debtors

	2019	2018
	£'000	£'000
Trade debtors	262	161
Amounts owed by Group undertakings	446	405
Other debtors	498	568
Corporation tax	-	425
Deferred tax (see note 17)	643	552
Prepayments and accrued income	5,374	4,693
	7,223	6,804

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.

14 Creditor amounts falling due within one year

	2019	2018 (restated)
	£'000	£'000
Trade creditors	16,107	13,401
Amounts owed to Group undertakings	728	3,858
Corporation tax	642	-
Other taxation and social security	5,125	4,435
Other creditors	5,332	4,480
Derivative financial liabilities	-	1,178
Accruals and deferred income	4,101	4,018
	32,035	31,370

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

For details of the restatement, refer to note 1.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

15 Creditor amounts falling due after more than one year

	2019	2018 (restated)
	£'000	£'000
Accruals and deferred income	8,705	7,675

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.

For details of the restatement, refer to note 1.

16 Provisions for liabilities

The provision in the financial statements is as follows:

	Dilapidations provision
	£'000
At 18 February 2018 and 17 February 2019	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 2022.

17 Deferred tax

The deferred tax asset in the financial statements is as follows:

	2019	2018
	£'000	£'000
Accelerated capital allowances	622	487
Short term timing differences	21	65
	643	552

The movement on the deferred tax asset is as follows:

	£'000
At 18 February 2018	552
Deferred tax credit in Profit and Loss Account for the period	100
Adjustments in respect of previous periods	(9)
At 17 February 2019	643

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.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

18 Pensions and similar obligations

During the period the Company made contributions on behalf of a number of employees and three directors (2018: five) to defined contribution schemes. The assets of the schemes are held separately from those of the Company.

The pension charge, representing contributions payable by the Company to such schemes, including in respect of redundancy payments, amounted to £485k (2018: £318k).

Contributions totalling £74k (2018: £49k) were payable at the period end and are included in creditors.

19 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.

Modification

On 30 November 2018, Hobbycraft Group Limited amended the terms for both schemes whereby the employees will also now be eligible to receive a cash-settled bonus on the change of control of the Group if the equity value (determined pre-shareholder debt) is within a set range on exit with a predetermined floor and ceiling valuation. This amendment provides an additional incentive for key employees to allow them to benefit from value creation in the business and to be paid proceeds ahead of the equity holders of the Group. The cash-settled payment will be allocated based on the employees' shareholding.

To the extent that value accrues to the ordinary equity shares on exit the shares under the schemes will continue to be entitled to this value alongside other equity holders, in addition to the cash-settled payment outlined above.

Accounting treatment

As the shares within the schemes could benefit from both cash and equity-settled value management have used judgement to determine which outcome is the most probable for determining the appropriate accounting treatment.

Despite the fact that management deem the cash-settled payment to be the most likely outcome both share schemes continue to be accounted for as equity-settled schemes in the Company as the obligation to cash-settle exists in the ultimate parent (Hobbycraft Group Limited) and therefore the Company accounts for the schemes as equity-settled schemes with the corresponding credit to equity in the capital contribution reserve.

The fair value of awards was measured at the date of grant using the Black-Scholes option pricing model and allocated over a vesting period to the anticipated exit date. 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 schemes. This aims to be indicative of future trends, but may not necessarily reflect the actual outcome. The expected life of the schemes 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 fair value of awards made in prior years was re-measured on the date that the schemes were modified.

Executive Scheme

There were no shares granted to employees of the Company under the Executive Scheme in the current period (2018: nil).

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

19 Share based payments (continued)

Hobbycraft Share Offer Plan

Under the share scheme, Hobbycraft Group Limited Employee Benefit Trust (EBT) holds a 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.

A total of 58,500,000 "A" ordinary shares were granted to employees of the Company under the Hobbycraft Share Offer Plan on 30 November 2018, as well as a further 4,000,000 "A" ordinary shares on 4 February 2019 (2018: nil).

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:

	2019	2018
	£'000	£'000
Equity-settled share based payment charge/(credit)	83	(4)

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

20 Called up share capital

	2019	2018
	£'000	£'000
Authorised		
7,500 (2017: 7,500) ordinary shares of £1 each	8	8
1,650 (2017: 1,650) "A" ordinary shares of £1 each	2	2
	10	10
Allotted and fully paid		
6,600 (2017: 6,600) ordinary shares of £1 each	7	7
1,376 (2017: 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.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

21 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
	2019	2019	2019	2018	2018	2018
Payment due:	£'000	£'000	£'000	£'000	£'000	£'000
Not later than 1 year	22,491	302	22,793	21,929	98	22,027
Later than 1 year and not later than 5 years	70,850	320	71,170	75,654	37	75,691
Later than 5 years	25,780	-	25,780	31,350	-	31,350
Total	119,121	622	119,743	128,933	135	129,068

22 Capital commitments

At 17 February 2019 the Company had no capital commitments (2018: nil).

23 Contingent liabilities

At 17 February 2019 the Company had no contingent liabilities (2018: nil).

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 17 February 2019

24 Related party transactions

Transactions with shareholders

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

Warren 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 £567k (2018: £555k) in the period in property rentals and overhead recharges.

At 17 February 2019 £20k (2018: £25k) was due to Haskins Garden Centres Limited.

At 17 February 2019 £nil (2018: £nil) was due to Estera Trust (Jersey) Limited, which is ultimately owned by Bridgepoint. During the period Hobbycraft Trading Limited made payments of £16k (2018: £14k) to Estera Trust (Jersey) Limited.

At 17 February 2019 £nil (2018: £nil) was due to ANDigital Limited, which is an entity jointly controlled by a connected party. During the period Hobbycraft Trading Limited made payments of £2k (2018: £nil) to ANDigital Limited.

Hobbycraft Trading Limited enters into forward foreign currency contracts to mitigate the exchange rate risk for foreign currency purchases. During the period, the Company committed to buy \$7,500k (2018: £20,000k) for a fixed Sterling amount from Moneycorp, a company ultimately owned by Bridgepoint. This included £nil (2018: \$12,500k) of contracts that had not been settled at 17 February 2019.

Transactions with Private Equity investors

Monitoring fees of £150k (2018: £150k) payable to Bridgepoint Advisers Limited were charged to the Profit and Loss Account in the 52 weeks ended 17 February 2019.

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'.

25 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.

On 17 February 2019 and throughout the financial year, the ultimate controlling party was Bridgepoint Europe IV Private Equity Fund, which was in turn managed by Bridgepoint Advisers Limited. On 25 October 2019, the ultimate controlling party changed to Bridgepoint Europe Portfolio IV LP.