



HOBBYCRAFT TRADING LIMITED

Annual Report

For the 52 weeks ended 19 February 2023

Registered number: 00806269



Hobbycraft Trading Limited

Annual Report for the 52 weeks ended 19 February 2023

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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 19 February 2023

The directors present their Strategic Report together with the audited financial statements for the 52 weeks ended 19 February 2023 (FY23).

Principal activities

The Company is a specialist retailer trading in the United Kingdom. The business conducted is principally the sale of art and craft-related products, trading under the name Hobbycraft.

Business environment

The UK retail environment is competitive, with elements within our categories ranged by independent retailers and many multi-site competitors. Whilst most companies do not offer similar broad product coverage, there is sufficient interest, including from online specialists within individual categories, to create the need for a continual focus on 'value' as an important differentiating factor. This focus is even more important given the broader economic environment and customers' ability to research and compare prices to ensure they are getting value for money.

Strategy

The Company's success is dependent on the proper selection, pricing and merchandising of art and craft products. We believe it is important to retain a range that meets the needs of our established customer base, which continues to benefit from our evolving specialist products, while also inspiring a new generation of customers through more accessible pricing and inspiring product selection. This is coupled with the inspiration that is provided by a wide range of demonstrations and workshops that are available online and in-store, as well as our online 'Ideas Hub' and social media content.

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 stores in relevant locations across the United Kingdom (including Northern Ireland) to drive profitability and brand awareness. This is coupled with the aim of increasing E-commerce participation as we continue to grow both online sales and profitability through further digital investment, while improving our online experience and offering.

During the year the Company continued to invest in our existing store estate with the launch of our new Haberdashery concept in 23 stores to showcase our expanded range of fabric, sewing machines and accessories. Further investment is planned for the coming year to roll-out this concept to the remainder of the estate, enabling us to display our extended product range. Digital investment also continued throughout the year following the launch of our new online platform in March 2022, which has since been optimised with the launch of additional functionality to improve the customer journey. There has been further investment into the design and build of the Hobbycraft App which will launch in FY24 to drive customer loyalty and multi-channel sales.

The growth in our Click and Collect proposition continues to support driving footfall to stores (37.1% of all online orders were fulfilled via Click and Collect during the period ended 19 February 2023 (period ended 20 February 2022: 32.5%)) along with our ever-growing range of in-store demonstrations and workshops which provide inspiration to customers and allow our colleagues to demonstrate their outstanding knowledge and passion for crafting. We also continue to develop our offering of online demonstrations and workshops which again showcase the exceptional skills and enthusiasm of our colleagues, particularly our in-house Artisans who are experts in a particular craft. This multi-dimensional approach will help us to achieve our goal of becoming the main destination for crafting inspiration in the UK.

Our multi-channel aspirations are supported by our growing social media community and the Hobbycraft Club, which has 6.5 million members. Our sector-leading social media profile is supported by the use of targeted digital marketing, Facebook Live and YouTube demonstrations, both Hobbycraft content and user-generated content across all social media channels, and our 'Ideas Hub', all of which help to drive engagement with new and existing customers. During the year we also launched our presence on TikTok with both a central and store-led accounts, which already have a combined following of 55,399 and with combined video views totalling over 8.5 million. This channel will become a growing focus for the coming year with further store-led accounts being added to showcase our exceptionally talented colleagues and drive wider customer engagement.

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Strategic Report (continued) for the 52 weeks ended 19 February 2023

The drive to improve customer loyalty will be supported by investment into our new promotions engine, which will allow us to provide tailored offers to customers, combined with curated emails and discounts for new Hobbycraft Club customers, following successful trials to analyse Customer Lifetime Value during FY23.

The inflationary pressures on the business have also accelerated our plans to increase our own-brand offering in order to maximise profitability. This will be achieved by delivering new product ranges to the customer, which represent fantastic value, both in terms of price and quality, when compared to the third-party branded equivalents. We will ensure our customer communications are more own-brand focused and use our colleagues and Artisans to highlight the quality of these ranges. During the period, our own-brand sales participation increased to 43.0% from 41.1% in the period ended 19 February 2023, with plans to increase this significantly over the next few years.

Despite our focus on product newness and breadth of offering, we continue to rationalise our range and build a simpler, better and cheaper business through the removal of the slowest-moving lines. This remains an area of focus for the business, to improve gross margin and drive efficient use of working capital, as we continue to look to tighten our stock holding and reduce aged stock.

Our ability to achieve strategic objectives is underpinned 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. Our progress against this initiative was evidenced by Hobbycraft being awarded fifth place in the Best Companies Survey 2022.

Review of the business

The financial statements for the period ended 19 February 2023 (FY23) are set out from page 25.

The key trading results of the Company are provided below. Management consider that Adjusted Trading EBITDA reflects the trading performance of the Company and exercise judgement in determining what is included within the exceptional and one-off items classification. Significant items of income and expense that are not considered in the ordinary course of business are separately disclosed to help provide an indication of the Company's underlying performance. Both the trading and the statutory results are presented in the Profit and Loss Account on page 25.

	2023 52 weeks £'000	2022 52 weeks £'000
	Trading results	Trading results
Revenue	211,098	203,131
Cost of sales	(90,921)	(87,928)
Gross profit	120,177	115,203
Operating expenses (before depreciation, amortisation, share-based payments and monitoring fees)	(109,851)	(102,440)
Other operating income	359	2,217
Adjusted EBITDA	10,685	14,980
Depreciation and amortisation	(6,985)	(6,055)
Share-based payments	(694)	(685)
Monitoring fees	(150)	(150)
Operating profit	2,856	8,090

The comparability of the FY23 results against the prior period is affected by the impact of COVID-19, with the prior period starting during the third national lockdown; as a 'non-essential retailer', our stores were closed for the first seven weeks of the year.

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Strategic Report (continued) for the 52 weeks ended 19 February 2023

Total revenue increased by £8.0m (+3.9%) to £211.1m with total LFL sales¹ increasing by +0.5%. When comparing the results for weeks 8-52 for both years total revenue decreased by £5.0m (-2.6%) with total LFL sales¹ decreasing by -5.8%.

The crafting market in the first half of the year was weaker than expected as consumers prioritised socialising and leisure activities that had been more limited through the COVID-19 lockdowns and during the record heatwave over the summer. In addition, consumer sentiment was weakened by the cost-of-living crisis which impacted on footfall across the retail market. Despite the economic headwinds facing the consumer, we delivered robust results for the second half of the year with a particularly strong Christmas trading period. However, total store footfall remained well below pre-pandemic levels resulting in lower overall sales volumes.

Our online sales were impacted by the wider market trend of customers switching back to shopping in stores rather than online. This was exacerbated by the Royal Mail strikes over peak which impacted on consumer confidence for online orders, however it did help drive up our Click & Collect mix. Whilst total online sales declined 30.2% compared to the prior period, they remain 40.1% ahead of pre-pandemic levels (measured on a 3-year basis).

We opened three new stores during the year in Biggleswade, Bromborough and Southend, taking the total number of stores to 112.

Our Trading Gross Margin² rate increased to 56.9% from 56.7% in the prior period despite the significant increase in freight costs and inflationary cost price increases from suppliers. The improvement in margin rate resulted from selective increases in retail prices (while ensuring we continued to offer great value for our customers) as well as effective stock management.

Cost control and driving operational efficiency continued to be essential to help offset the broader inflationary cost pressures. During the year, we continued to progress rent negotiations with landlords to reduce existing rents in line with current market rates and to drive operational efficiencies in store processes to unlock payroll savings, while continuing to provide industry-leading customer service and without making any redundancies.

Therefore, despite unprecedented inflationary cost pressures and with footfall being well below pre-pandemic levels, the Company achieved a robust Adjusted Trading EBITDA³ of £10.7m, which represents a decrease of £4.3m or 28.7% on the prior period.

Adjusted Trading EBITDA, a non-GAAP measure, is calculated as follows:

	Note	2023 52 weeks £'000	2022 52 weeks £'000
Operating profit:		2,695	8,646
Add back/(deduct):			
One-off operating expenses	3	-	493
Fair value movement of derivative financial instruments	3	161	(1,049)
Share-based payment charge	20	694	685
Shareholder monitoring fees	25	150	150
Depreciation	10	5,666	5,413
Amortisation	9	1,319	642
Adjusted Trading EBITDA		10,685	14,980

¹ Total like-for-like (LFL) growth is calculated using the aggregate of sales from the E-commerce channel and any store that has been open and trading since the start of the prior year, which is then compared to the aggregate of sales in the prior year for the same population.

² Trading Gross 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 since these gains/losses are not realised at the balance sheet date.

³ Management consider that Adjusted Trading EBITDA reflects the trading performance of the Company, excluding the impact of capital investment. Adjusted Trading EBITDA is operating profit/(loss) before exceptional and other one-off 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 Profit and Loss Account charge or credit in relation to the onerous lease provision, shareholder monitoring fees, depreciation and amortisation.

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The Company's cash position closed at £32.3m, a decrease of £0.7m on the prior year.

We continued to invest in the longer-term growth of the Company with capital expenditure of £6.2m largely consisting of the opening of three new stores, the launch of the new website, the start of our new Haberdashery concept rollout in stores and the design and build of the Hobbycraft App which launched in June 2023.

Key performance indicators ('KPIs')

The Board monitors the progress of the Company by reference to certain KPIs, including customer satisfaction (measured by the Net Promoter Score¹) and colleague engagement. During the year, the annual internal anonymous colleague engagement survey² was replaced with anonymous engagement surveys conducted by Best Companies, with Hobbycraft being awarded fifth place in the Best Companies Survey 2022. Customer satisfaction also continued to improve, reflected by a Net Promoter Score of 89.6%.

	2023	2022
Total Revenue	£211.1m	£203.1m
Trading Gross Margin %	56.9%	56.7%
Adjusted Trading EBITDA	£10.7m	£15.0m
Total LFL sales (including E-commerce)	0.5%	11.2%
Cash at bank and in hand	£32.3m	£33.0m
Customer satisfaction (Net Promoter Score) ¹	89.6%	89.4%
Colleague engagement – internal survey ²	N/A	91.0%
Colleague engagement – Best Companies	5 th	N/A

¹ 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%.

² Colleague engagement was previously measured via an anonymous survey sent to all colleagues once per year.

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Environmental, Social and Corporate Governance (ESG) impacts

ESG principles are central to the business and factoring these into 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.

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.

During the prior year we conducted a detailed materiality assessment as part of the development of our ESG strategy. This was an inclusive process involving engagement with our colleagues and with external stakeholders, including our shareholders, to ensure our strategy focuses on the issues most important to our stakeholders. Following this consultation, our ESG strategy was aligned with 11 high level topics. The full ESG strategy is available on our website (<https://www.hobbycraft.co.uk/corporate-and-press/about-further-information/cp-social-responsibility.html>).

The table below highlights the key achievements to date including developments during FY23 and the priority actions going forwards.

Material ESG topic	Director sponsor	Key achievements to date	Actions / Targets
Benefits of crafting	Customer Director	<ul style="list-style-type: none"> Over 2,000 free projects to inspire crafting available on our website and 'Ideas Hub' Workshop channel offers workshops in stores and online to help customers learn a new craft or master advanced techniques During the year we, incorporated User Generated Content (UGC) focused on customers' crafting creations into our website and social media campaigns, showcasing a greater range of crafting ideas and the talents of our customers and local communities 	<ul style="list-style-type: none"> Increase the number of free projects via our online 'Ideas Hub'
Wellbeing, health and safety	People Director	<ul style="list-style-type: none"> Annual Health & Safety training for all colleagues Mental health first aiders throughout the business and available to all colleagues, with wellbeing training provided to all senior managers across the business (including store managers) by Retail Trust during FY23 Retail Trust employee assistance programme available to all colleagues Only three Riddor-reportable accidents during FY23 (FY22: two), with accidents per 100,000 transactions decreasing to 3.02 (FY22: 3.28) 	<ul style="list-style-type: none"> Reduce the number of accidents per 100,000 transactions
Ethical business practices	Trading Director	<ul style="list-style-type: none"> Hobbycraft is a member of Sedex, an organisation that provides one of the world's leading online platforms for companies to manage and improve working conditions in global supply chains All suppliers of own-brand products are signed up to Sedex, with factory audits conducted every two years. Audit coverage includes modern slavery, working conditions, minimum wage compliance, environmental standards and Health & Safety. During FY23, we also signed up all non own-brand suppliers to Sedex 	<ul style="list-style-type: none"> Continue the rollout of Sedex to all key logistics partners throughout the supply chain Continue to monitor Sedex audit results for all product suppliers

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Material ESG topic	Director sponsor	Key achievements to date	Actions / Targets
Waste (in operations)	Supply Chain Director	<ul style="list-style-type: none"> During the 2022 calendar year 1,970 tonnes of waste was generated by internal operations of which 100% was either recycled or recovered and burnt as a fuel source, with no waste going to landfill 	<ul style="list-style-type: none"> All product packaging to be recycled kerbside by 2025
Sustainability of products	Trading Director	<ul style="list-style-type: none"> 43% of the product range has plastic-free packaging and 20% has no packaging at all All own-brand packaging features OPRL (on packaging recycling labels) All kids lines tested to CE/UKCA Bio-degradable glitter range Styrofoam has been removed from the product range All wood items are now FSC sourced 	<ul style="list-style-type: none"> Continue to reduce plastic packaging within all ranges <ul style="list-style-type: none"> Remove non-recyclable plastic from packaging by FY24 25% of all products to be packaging-free by end of FY24
Community contribution & engagement	Customer Director	<ul style="list-style-type: none"> Continued fundraising for our charity partner, Together for Short Lives, with £413k raised during FY23 and over £2.4m raised since the start of the partnership £76k raised for The Women's Institute (WI) from sales of WI yarn, with over £469k raised since the start of our collaboration Becoming a founding patron of the HIDEOUT charity in Manchester, which provides young people with a safe and inspiring place to spend their leisure time 100 local and national charities supported during the COVID-19 pandemic, including NHS PPE charities During FY23 we launched our subscription model 'Hobbycraft Plus' aimed at supporting small businesses and dedicated crafters 	<ul style="list-style-type: none"> Raise £500k for our chosen charity partner, Together for Short Lives, during FY24
Data privacy & security	IT Director	<ul style="list-style-type: none"> Annual data protection and security training provided to all colleagues, with compliance tested through internal audits Data Protection Officer in place to monitor compliance See 'Information security and data protection' risk on page 12 for further details 	<ul style="list-style-type: none"> Obtain Cyber Essentials Plus accreditation by the end of FY24
Colleague engagement	People Director	<ul style="list-style-type: none"> Training and development courses available to all colleagues, including a trainee manager programme and Artisan programme (see page 10 for further details) Annual bonus scheme linked to achievement of annual targets Inflationary pay rises Flexible working Birthday day-off for all colleagues Ranked fifth in the Best Companies Survey 2022, along with retaining 3-star (World class) accreditation 99% of all Territory Managers have over 12 months of service 126 Artisans across the business reached by the end of FY23 54 Artisan-developed products available for sale, with profits going to Artisans 	<ul style="list-style-type: none"> Become recognised as the Best UK Company to work for by the end of FY25, evidenced via the Best Companies Survey

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Strategic Report (continued) for the 52 weeks ended 19 February 2023

Material ESG topic	Director sponsor	Key achievements to date	Actions / Targets
Diversity and inclusion	People Director	<ul style="list-style-type: none"> A Diversity and Inclusion committee aims to ensure maximum diversity within our recruitment, advertising, products and content Inter-faith calendar launched during FY22 aims to ensure our products and promotions represent our multi-cultural society, colleagues and customers 	<ul style="list-style-type: none"> Continue to drive an inclusive culture throughout the business, championed and supported by our Diversity, Inclusion and Belonging Committee Recognise and celebrate customers across all races, socio-economic Company's, gender identities and sexual orientations to ensure we represent the communities we operate in
Carbon Footprint	CFO	Scope 1 (Direct) emissions: from air conditioning units and owned vehicles (company cars) <ul style="list-style-type: none"> The company car policy is to offer hybrid or electric cars only Electric charging point is provided at head office 	<ul style="list-style-type: none"> Install additional electric charging points across the estate (at the Distribution Centre (DC) and stores)
		Scope 2 (Indirect) emissions: purchased electricity and reduction in electricity consumption <ul style="list-style-type: none"> All new stores have LED lighting and Building Energy Management Systems (BEMS) to reduce consumption All electricity is obtained from renewable sources See page 17 for carbon emission reporting 	<ul style="list-style-type: none"> Begin a programme to retro-fit the DC and older stores with LED lighting and BEMS, starting with the DC in FY24 Achieve 'net zero' status by 2040 in line with the BRC's Climate Action Roadmap
		Scope 3 (Supply chain) emissions: product (stock) suppliers, non-product and logistics suppliers	<ul style="list-style-type: none"> Launch a project to quantify Scope 3 emissions and work with key suppliers to understand and implement the actions needed to reduce them
Compliance and risk	CFO	<ul style="list-style-type: none"> Risk management framework in place to identify key risks and mitigations – see the principal risks and uncertainties outlined on page 10 Quarterly Governance & Compliance steering committee to regularly review the progress of actions as well as to identify any new risks or legislation to ensure ongoing compliance 	<ul style="list-style-type: none"> Ongoing monitoring and compliance

Going forwards, we remain committed to continuously reducing our impact on the environment, supporting our colleagues and chosen charities, and ensuring that we maintain integrity through ethical sourcing and supplier partnerships.

Section 172 statement

This statement summarises how the directors have exercised their duties with regards to the matters set out in Section 172 (a to f) of the Companies Act 2006.

Our stakeholders

The Board considers the interests of stakeholders in decision-making and seeks to understand their interests via direct engagement by directors and by reviewing reports and updates from members of management.

The Company's key stakeholders are outlined below along with details regarding why they are important to the Company and what is important to them:

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Strategic Report (continued) for the 52 weeks ended 19 February 2023

- **Colleagues** (see page 9): the strength of our business depends upon the knowledge, hard work and dedication of our colleagues, who in turn rely on the business for stable employment and for opportunities to realise their potential.
- **Customers** (see page 10): it is essential to our future that we consistently meet the needs of our customers and maintain brand loyalty, supported by our highly successful Club (see page 2). We aim to continuously provide high quality products at accessible prices and to stay up to date with crafting trends.
- **Communities and the environment** (see page 10): serving local communities is at the heart of Hobbycraft's ethos, whether through catering for local crafting needs or through our charity partnerships, while we seek to minimise any adverse impact upon the environment.
- **Suppliers** (see page 10): supplier relationships are fundamental to our success, not least because all our products are manufactured and delivered by suppliers, all our locations are leased sites and many of our essential services are provided by third parties. Furthermore, suppliers often rely on us for income and to create employment in their local areas.
- **Regulators** (see page 10): we seek to comply with all applicable laws and regulations and to maintain a cooperative relationship with regulatory bodies. We are proud of our reputation for high standards of business conduct.
- **Shareholders**: at a Group level we have a collaborative relationship with our shareholders and welcome the advice and experience that the majority shareholder brings to the Board. We rely on the majority shareholder as our main source of debt funding, and they rely on us to manage their investment in a sustainable way that generates value.

Consideration of long-term factors

The Board is mindful of the long-term implications of strategic decisions and carefully assesses those implications. For example, decisions around capital expenditure aim to balance the need to invest in the existing infrastructure with the objectives of growing the business and implementing new and improved systems. For further information on strategy see page 3, with future developments discussed on page 15.

The interests of colleagues

The interests of colleagues are always factored into the Board's decision-making. That principle is helped by the length of service of the CEO and that of several members of the senior management team. There is extensive retail experience among the senior team members who have a strong understanding of and a rapport with the colleague base. The senior team's knowledge and active engagement enable the Board to maintain a sharp insight into the culture and views of colleagues, which is further informed by the annual engagement survey conducted anonymously. The results of the survey are considered a core KPI, as reported on page 5.

In addition, Hobbycraft has a number of other effective engagement mechanisms including the fact that colleagues are kept informed of performance and strategy through regular presentations and updates. These updates are delivered via a combination of face-to-face meetings and company newsletters.

Executive directors attend key trading meetings throughout the year as well as regular meetings with colleagues, including listening groups conducted by the CEO. As an example, following the Christmas trading period, executive directors held listening groups across the business to collate feedback on lessons learnt and to make improvements going forwards. These inclusive principles were evidenced by Hobbycraft being awarded fifth place in the Best Companies Survey 2022, along with maintaining our 3-star accreditation.

Board meetings are attended by the People Director to ensure that the Board is kept abreast of employee-related matters, including demographics, diversity and gender equality, engagement activities, the results of surveys, labour turnover rates, learning and development activity, and pay and reward matters. The latter is also discussed in formal remuneration committee meetings. Our Diversity and Inclusion committee has the following mission statement: making sure all diversities are represented and included within our recruitment, advertising, products and content. The committee is made up of a diverse group of colleagues from across the business, with the outcome of committee meetings reported to directors on a monthly basis.

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Strategic Report (continued) for the 52 weeks ended 19 February 2023

With regards to health, safety and wellbeing, the Board is updated monthly on safety performance and risk management. Trained mental health first aiders are available to all colleagues, which is complemented by Hobbycraft's partnership with Retail Trust, a charity that provides practical and emotional support. The Company also operates flexible working arrangements, which all colleagues are invited to apply for.

The Company invests in the learning and development of all colleagues, one example is the trainee manager programme to support colleagues in their journey to become store managers. The Company also continues to invest in the Artisan programme (our expert crafting colleagues who embody our love of craft and all things making) which aims to maximise colleagues' talents.

Relationships with suppliers, customers and others

The Board is briefed on major contract negotiations with key suppliers and a formal policy is in place to govern the contract approval process. A balance is sought between the need to obtain value for money, to maintain or improve quality of service and to foster strong relationships with key suppliers. Any new suppliers are subject to a due diligence review, determining their ability to supply the products or service with acceptable quality, along with their financial stability and their legal and ethical position.

The sentiment of customers is measured via monitoring sales performance figures and shopping behaviours, as well as direct engagement using surveys and listening groups, all of which are closely monitored by the Board on a weekly or monthly basis. The interests of customers are considered in decision-making, such as with respect to the store portfolio, the online shopping experience, product selection, and the monitoring of suppliers to ensure quality and safety standards are met. Refer to the strategy on page 3 for further information. Customer satisfaction is a core KPI, as reported on page 6.

The Board is focused on meeting all regulatory obligations and strives for best practice in that regard, with decision-making informed by regular dialogues with regulatory bodies, such as the Chartered Trading Standards Institute. Hobbycraft manages its tax affairs proactively to comply with tax legislation, engaging with HMRC where required and seeking expert advice from qualified tax professionals. For further information on risk management and regulatory compliance, refer to pages 10 to 15.

The CFO is responsible for managing the relationships with our lenders, insurance provider and credit rating agencies, and for the Company's cash and debt management and financing activities. The CFO provides regular reports to the Board on these activities, including plans to ensure appropriate access to debt capital and monitoring headroom on facilities.

Standards of business conduct and impacts on the community and the environment

The Board supports the Company's strategy with regards to supporting local communities, aiming to reduce adverse impacts on the environment and seeking to maintain the highest standards of business conduct. See page 6 for information on our environmental, social and corporate governance (ESG) initiatives, including ongoing fundraising for our charity partner, Together for Short Lives.

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 takes on an important oversight role in that 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 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.

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Strategic Report (continued) for the 52 weeks ended 19 February 2023

The principal risks for our business are outlined in the table below.

Risk	Description of risk	Mitigation	Risk movement
Economic changes and cost inflation	<p>An economic downturn has the potential to impact upon sales and costs, including the effects of:</p> <ul style="list-style-type: none"> - Less disposable income for customers. - Stock intake delays or an escalation of supply chain costs arising from factors such as wage inflation, foreign exchange rate movements, changes to tariffs and duties or increases in raw material prices. - Increased fuel and energy costs, impacting upon distribution or upon store and support centre operational costs. - Variations in foreign exchange rates impacting upon margins for US dollar and Euro-denominated purchases. 	<p>Inflationary pressures and price rises are tracked as part of the budget process and risks are reviewed on a monthly basis.</p> <p>There is a continuous focus to offset and mitigate cost pressures through driving cost efficiencies.</p> <p>A retail pricing strategy is in place which focuses on comparability with competitors. This is reviewed by management on a weekly basis to ensure pricing remains competitive.</p> <p>There is a greater strategic focus to increase own-brand sales participation which has a higher margin rate, thereby helping to offset inflationary cost pressures.</p> <p>A treasury policy is in place with clear guidelines for hedging the foreign exchange risk of US dollar purchases 12 months in advance, while maintaining foreign currency balances at minimum levels.</p>	
Business continuity / disaster recovery	<p>There is a risk that failure to recover from a disaster in an efficient and controlled way could lead to reputational damage, financial losses and operational problems.</p>	<p>A business impact assessment is updated bi-annually and supported by Disaster Recovery Plans.</p> <p>Incident Management Team (IMT) protocols are in place for responding to an incident.</p> <p>Desktop scenario training is conducted at least annually with the IMT.</p> <p>Operational backup plans are in place for key systems, managed by reputable third parties.</p> <p>Comprehensive insurance policies are in place, subject to review on an annual basis.</p>	
Supply chain disruption	<p>Delays in the supply chain could lead to stock availability issues and failure to meet customer demand.</p> <p>Potential problems include: a supplier failing to deliver an order, goods received not being fit for purpose, a shipping cargo loss, and a sustained delay affecting imports (arising from strikes, civil unrest, political turmoil or natural disasters).</p> <p>Supply chain speed could be significantly constrained due to a lack of available DC resource (including agency workers over peak periods).</p>	<p>A diverse range of products and suppliers avoids over-reliance on any single supplier.</p> <p>All new suppliers are subject to a due diligence review, determining their ability to supply the products with acceptable quality, along with their financial stability and their legal and ethical position.</p> <p>Orders are subject to random quality inspections.</p> <p>Reputable logistics companies are used to provide freight and distribution services.</p> <p>Detailed resource planning is conducted in advance of peak trading periods to provide sufficient time for the recruitment and onboarding of additional colleagues in the DC.</p>	



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Risk	Description of risk	Mitigation	Risk movement
Corporate social responsibility	An ethical or quality standards failure within the supply chain (including at supplier premises) could lead to reputational damage.	<p>Internal policies are in place covering Anti-Bribery and Corruption, Tax Evasion and Modern Slavery. Colleagues are required to complete annual compliance training in relation to key policies.</p> <p>There is an internal Sustainability Plan in operation, along with policies for product selection and for monitoring ethical practices by suppliers (including independent supplier audits).</p> <p>A Quality and Compliance manager is responsible for ensuring all products comply with health and safety (H&S) and Trading Standards legislation.</p>	
Information security and data protection	<p>A data protection failure could lead to prosecution, fines and reputational damage.</p> <p>There is a risk of unauthorised data usage arising from a malicious cyber-attack. The attack could also lead to systems failure, compromising security or the fulfilment of online and store transactions.</p>	<p>Regular reviews of the changing risk profile due to the emergence of new cyber threats are conducted with third party specialists, with the Cyber roadmap regularly updated to respond to new risks and changing priorities.</p> <p>Technical IT controls include a configured firewall, network patching, anti-virus software and a Managed Detection and Response (MDR) solution. MDR provides 24/7 monitoring and threat detection, including detailed analysis of network traffic, application whitelisting, website access control, threat and suspicious activity alerting, with a dedicated third-party team to support in the event of any suspicious activity.</p> <p>Backup procedures are in place to address any short-term or specific loss of data.</p> <p>Secure data storage facilities are hosted externally.</p> <p>IT security policies are published and maintained.</p> <p>A mandatory 'Information Security' training module is completed by colleagues annually and internal phishing tests are conducted quarterly to raise colleague awareness of potential threats.</p> <p>A detailed "Cyber attack" response plan is in place, with desktop scenario sessions conducted twice per year with senior management from across the business to test response.</p> <p>Cyber insurance is in place which includes support from lawyers and specialist consultants to assist in the response to a breach incident.</p> <p>Quarterly updates are provided to the Board on the continual progress to tighten and improve the key controls and processes in relation to information security and data protection.</p>	




Hobbycraft Trading Limited

Strategic Report (continued) for the 52 weeks ended 19 February 2023

Risk	Description of risk	Mitigation	Risk movement
Climate change and environment	There is a risk of failure to anticipate and address the strategic, regulatory and reputational impact of climate change and environmental matters, along with the governmental, consumer and media action in response to it.	<p>Regulatory changes and requirements are identified and monitored by a Governance & Compliance Steering committee to ensure required changes to controls and processes are identified in advance and implemented to ensure compliance and mitigate costs.</p> <p>Reducing Hobbycraft's impact on the environment is incorporated into our product strategy to reduce packaging, waste and carbon emissions, and it is a key element of our ESG strategy with a roadmap being developed to clarify targets and deadlines for initiatives, aligning to the BRC Climate Action Roadmap. See page 8 for further details and page 17 for reporting on our energy and carbon emissions.</p> <p>Climate change may lead to disruption of the supply chain (e.g. more regular instances of extreme weather), the impact of which is outlined in the supply chain disruption risk above.</p> <p>Consumer needs may shift as a response to climate change, the impact of which is outlined in the multichannel strategy risk below.</p>	
Regulatory compliance	<p>The key risks are as follows:</p> <ul style="list-style-type: none"> - Breaches of regulations or legal requirements could lead to significant fines and reputational damage. - Changes in our regulatory landscape might adversely affect our financial condition and operations. - We might fail to effectively manage product quality and safety. - We could fail to adhere to tax legislation. - There is a risk of fraud or errors in financial reporting. 	<p>Oversight is provided by an established Governance and Compliance Steering committee, which continuously monitors legal and regulatory developments and implements changes to processes and policies as necessary.</p> <p>Health and safety (H&S) training is compulsory for all colleagues.</p> <p>A programme of H&S inspections and monitoring of key controls includes an annual external audit of the DC and annual internal audits of all stores and support centres.</p> <p>Quarterly H&S committee meetings are held with the senior management of all functions (Stores, DC and support centres) to maintain oversight of any H&S issues and actions.</p> <p>An anti-bribery and corruption policy must be adhered to by all colleagues and suppliers, with annual training provided to colleagues.</p> <p>Expert third party advice is sought with respect to any significant tax matters. A policy is in place and training is provided to prevent the corporate facilitation of tax evasion.</p> <p>Supplier on-boarding checks are completed and a supplier audit programme is followed.</p> <p>A Modern Slavery statement is published annually to set out compliance with legal requirements.</p> <p>A Data Protection Officer and a Head of Loss Prevention are in post. Appropriate segregation of duties is ensured, along with key controls where there is a significant risk of fraud or error.</p> <p>A GDPR project plan has been delivered and continuous monitoring is ongoing.</p>	

Hobbycraft Trading Limited

Strategic Report (continued) for the 52 weeks ended 19 February 2023

Risk	Description of risk	Mitigation	Risk movement
Limited warehouse capacity	A lack of warehouse capacity has the potential to limit future growth in the business.	<p>The main warehouse facility is based in Staffordshire where the local market provides ready availability of high quality warehouses that could operate as satellites if required.</p> <p>The main floor of the warehouse provides ample capacity for the next five years, accommodating stock for the 112 stores (as of 19 February 2023) and the proposed roll-out of c. 7 new stores per year.</p> <p>Annual investment in the DC increases the capacity of E-commerce operations.</p> <p>A strategy to reduce the overall stockholding is in place, including improving stock turn and reducing aged stock.</p> <p>Reviews of future capacity are completed every 12 months to forecast when limits will be reached and to plan remedial actions.</p> <p>Investment is included in the 3-year plan to drive efficiency and the better use of space for DC operations.</p>	
Multichannel strategy	<p>There is competition risk from existing competitors and new entrants to the market, in particular increased competition for the online business where there are fewer barriers to entry.</p> <p>We might fail to meet customer expectations across all channels, undermining our multichannel proposition.</p> <p>There is a risk of a lack of cohesion between channels, compromising the consistency of the customer experience.</p>	<p>There is a strategy to continue to grow the E-commerce business. Investment has been included in business plans to improve the online customer proposition and to support future growth. The strategy includes the introduction of a Hobbycraft App which launched in summer 2023.</p> <p>There are regular reviews of profitability and fulfilment costs across channels with continuous focus on driving efficiency and margin improvement.</p> <p>A robust store selection process is followed, with strong payback results.</p> <p>Store profitability is reviewed on a monthly basis coupled with ongoing discussions with landlords to negotiate rent reductions and to exit any marginally profitable stores.</p>	
Talent management	<p>There is a potential risk of a shortage of (or a failure to recruit) top talent to run our day-to-day operations.</p> <p>We could also fail to develop and retain talented colleagues which could adversely affect the business.</p>	<p>Regular performance reviews are supported by training and development as required.</p> <p>Hobbycraft offers competitive remuneration packages and benefits. The People team carries out salary benchmarking periodically using relevant market data.</p> <p>Key colleagues have adequate notice periods of at least 6 months.</p> <p>Succession planning for key positions is reviewed on a periodic basis.</p> <p>Colleague turnover is reviewed each month and an annual engagement survey is in place to monitor colleague feedback and drive actions to improve engagement.</p> <p>Key members of the senior management team are incentivised through shareholdings and bonus schemes.</p>	

Hobbycraft Trading Limited

Strategic Report (continued) for the 52 weeks ended 19 February 2023

Risk	Description of risk	Mitigation	Risk movement
Working capital management	<p>There is a potential shortage of cash reserves to meet business needs at critical times.</p> <p>Inefficient use of working capital, such as tying up too much working capital in stock or operating with unfavourable payment terms, could adversely affect liquidity.</p>	<p>A formal treasury policy is in place and a suitable Asset Backed Lending Revolving Credit Facility (ABL RCF) is available, reviewed regularly.</p> <p>There is a rigorous budget-setting process with regular detailed reviews of performance against targets. A 3-year business plan is updated annually. A rolling weekly cash flow forecast covers the medium term (6 months).</p> <p>There is a well-defined stock management process, as outlined below. There is a continuous focus on stock management to keep stock levels as low as possible without jeopardising availability.</p>	↔
Buying decisions over stock ranges and volumes	<p>Poor buying decisions leading to a surplus of stock could lead to working capital problems and a shortage of space, both at the DC and in stores.</p> <p>Failure to spot key trends could also impact upon trading performance and loss of market share.</p>	<p>An experienced buying team is in place, supported by training and development. There is a clearly defined buying process with appropriate review and approval controls to cover new products, replenishment of existing lines and the process of removing lines from the business.</p> <p>There are weekly reviews of stock forecasts against budget and Open To Buy (OTB) figures are also reviewed on a weekly basis as part of stock sign-off.</p> <p>Ongoing analysis of sales and stock performance is managed through a series of weekly cross-functional meetings, with reference to several KPIs.</p>	↔

Future developments

The inflationary cost pressures on both the consumer and the business have made FY23 another very challenging period. However, the business has worked hard to offset the inflationary headwinds while ensuring we continue to provide great value for our customers.

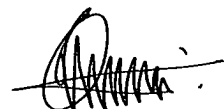
In the context of the weak consumer sentiment, with footfall being approximately 15% below pre-COVID levels, and the inflationary cost headwinds directly impacting the business, we have delivered another year of robust results with Adjusted Trading EBITDA of £10.7m. We have also continued to invest in future growth with the launch of our new website and the opening of three new stores.

We will continue to execute our strategy with improvements in product ranges supporting multi-channel growth and ensuring that we satisfy the needs of craft enthusiasts and stay ahead of the competition. In particular, accelerated growth in our own-brand range will see us bring further product innovation and inspiration, supported by our growing social media presence and additional new stores, along with the new Hobbycraft App which enhances the opportunity to give customers the best shopping experience.

As always, these plans are underpinned by a focus on industry-leading customer service and exceptional colleague engagement. Our strategy to become the main destination for crafting inspiration will be driven by our colleagues as we showcase their deep knowledge and passion for crafting.

Clearly, the ongoing impact of cost inflation and cost-of-living pressures on consumers will continue to present further challenges for the UK retail sector. However, the business is in a strong position to withstand these pressures and drive future growth, and is well placed to capitalise on the longer term recovery in consumer sentiment. FY24 has started positively with strong total LFL sales growth.

On behalf of the Board



Dominic Jordan
22 June 2023

Hobbycraft Trading Limited

Directors' Report for the 52 weeks ended 19 February 2023

The directors present their report and the audited financial statements for the 52 weeks ended 19 February 2023. The comparative period was the 52 weeks ended 20 February 2022. A review of the business and future developments is set out in the Strategic Report on pages 2 to 15.

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 consider that interest rate risk, price risk and credit risk are not significant to the Company.

Currency risk

The majority of transactions for goods for resale purchased from overseas (which represents approximately 24% 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 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

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 £32.3m at period end and access to a £35.0m ABL RCF, which was not utilised at the end of the financial year. Following the period end, the Company made a dividend payment of £15.1m to its parent company, Stitch Bidco Limited. This payment was funded from excess liquidity in order to facilitate a repayment of the Group's Investor Loan Notes, thereby reducing accrued interest payable upon maturity.

Following the refinancing on 3 February 2021, a £7.0m term loan which was drawn by the entity's parent company, Stitch Bidco Limited, on 4 February 2021 with the receipts then loaned to the Company, as well as access to an ABL RCF of up to £35.0m, which remained undrawn at period end.

The refinancing also resulted in fixed and floating debentures held by Wells Fargo Capital Finance (UK) Limited over the interests of Stitch 3 Limited, the entity's indirect parent company, Stitch Bidco Limited and Hobbycraft Trading Limited, meaning that in the event of a liquidation of the Hobbycraft Group, Wells Fargo will receive priority over unsecured creditors in the repayment of any amounts owed to them. Furthermore, Stitch 3 Limited, Stitch Bidco Limited and Hobbycraft Trading Limited are registered as guarantors of the term loan and the ABL RCF.

The Hobbycraft Group is required to demonstrate compliance with two covenants: a "Senior Leverage" covenant, comparing the ratio of net debt/cash to consolidated EBITDA, and a "Fixed Charge Cover Ratio" covenant ("FCCR"), comparing the ratio of fixed charges to consolidated cash flow. The Senior Leverage covenant applies on a monthly basis until such point that the term loan is fully repaid, whereas the FCCR covenant only applies monthly once the ABL RCF is drawn to the extent that remaining availability falls below a certain level (below 10% at any time or below 15% for a period of 5 business days during a rolling period of 20 consecutive business days). There were no covenant breaches in the period. On 12 May 2023, the Group extended the term of the ABL RCF with Wells Fargo for a renewed four-year term. See further details in note 26.

Hobbycraft Trading Limited

Directors' Report (continued) for the 52 weeks ended 19 February 2023

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 market-wide inflation, as witnessed during the year, will have an impact on consumer spending in the short/medium term although the full impact is unknown. Furthermore, the business will continue to face cost pressures due to inflation and other factors such as increases in utility costs and National Minimum/Living Wage legislation.

Corporate Governance

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

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 supported in their development 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 is 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, while 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 (2022: 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 to subsequently agree any temporary or permanent changes to those terms;
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with its contractual and other legal obligations.

Energy and carbon emissions

As part of the Company's ESG strategy outlined on page 6 we continue to focus on reducing our energy consumption and carbon footprint. The carbon emissions summary outlined below includes the consumption of electricity and gas across the store estate, distribution centre and support office, combined with company car mileage (scope 1 and 2 emissions). It does not include energy from services that are outsourced to third party suppliers, including freight and distribution of stock to stores and online customers (scope 3 emissions).

Hobbycraft Trading Limited

Directors' Report (continued) for the 52 weeks ended 19 February 2023

Energy and carbon emissions (continued)

To normalise the carbon emission reporting we focus on two intensity ratio measures, namely:

- tonnes of carbon per square foot, to adjust for increases in space as we expand our store estate; and
- tonnes of carbon per £m of revenue to adjust for variances in trade due to COVID-19 trading restrictions and future growth.

During FY23 a cross-functional working group was established to review processes across the business with the aim of driving a reduction in electricity consumption. This was combined with our continual focus on stores that have higher emissions than the estate average to tackle outliers and drive best practice. This business-wide focus has meant we have continued to drive a reduction in our total carbon emissions and intensity ratios, as outlined below.

FY20 was chosen as the base year and represents a full year of normal trading, prior to the disruption caused by COVID-19. The figures below consist of primary data:

	2023 52 weeks	2022 52 weeks	2021 53 weeks	2020 52 weeks
Carbon tonnes				
Electricity	2,673	2,932	2,973	3,602
Gas & Mileage	414	452	436	370
Total	3,087	3,384	3,409	3,972
Tonnes of CO2e per SQFT	0.0019	0.0022	0.0027	0.0032
Tonnes of CO2e per £m of Revenue	14.62	16.66	19.02	20.52

The UK Government's 2022 Conversion Factors for Company Reporting and GHG standards and the Streamlined Energy and Carbon Reporting guidance are used to quantify and report our greenhouse gas emissions.

Looking ahead, we will continue to drive best practice across the store estate through improved reporting of store energy consumption and the continued rollout of LED lighting and BEMS in new stores. We will also begin our rollout programme of retrofitting the existing estate with LED lighting and BEMS which will begin with the Distribution Centre in FY24.

Dividends

There were no dividends paid or proposed during the period ended 19 February 2023 (2022: £15.0m).

Following the period end, the Company made a dividend payment of £15.1m to its parent company, Stitch Bidco Limited. This payment was funded from excess liquidity in order to facilitate a repayment of the Group's Investor Loan Notes, thereby reducing accrued interest payable upon maturity.

Political donations

The Company made no political donations during the period ended 19 February 2023 (2022: £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
Russell Harrison
Katherine Paterson

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.

Hobbycraft Trading Limited

Directors' Report (continued) for the 52 weeks ended 19 February 2023

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 twice per 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 Strategic Report, the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Hobbycraft Trading Limited

Directors' Report (continued) for the 52 weeks ended 19 February 2023

Going concern

The Company reported an operating profit of £2.7m (2022: £8.6m). This was due to the weak consumer confidence brought about by the cost-of-living crisis, which meant footfall remained well below pre-pandemic levels across the UK retail market, as well as the unprecedented levels of inflationary cost pressures across the business.

The Company's closing cash position was £32.3m (2022: £33.0m) and the Company also has access to an Asset Backed Lending Revolving Credit Facility (ABL RCF) of up to £35.0m (undrawn at year end). The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the reasons outlined below.

The directors have performed financial modelling on projected cash flows for a period of 12 months from the date of approval of these financial statements, which indicate that the Company will have sufficient funds to meet its liabilities as they fall due for that period. The modelling includes a sustained downturn in sales driven by a reduction in store footfall and online traffic. This continued reduction in demand reflects an assumption of further weakening in consumer sentiment due to the ongoing cost of living pressures faced by our customers. The directors have also chosen to model a further period of cash flows up to February 2025, with no liquidity issues noted. As part of the assessment, the directors have only assumed a moderate value of cost-saving and cash preservation initiatives.

The modelling shows that the Company would continue to have sufficient liquidity to meet its liabilities as they fall due and that the covenants attached to the ABL RCF working capital facility would continue to be met. As outlined in note 26, the Company extended the term of the ABL RCF on 12 May 2023. The change included a revision to the allowable capital expenditure within the FCCR covenant calculation, which increases the headroom going forwards and enhances the liquidity of the Company.

Events after the reporting period

On 13 March 2023, the Company made a dividend payment of £15.1m to its parent company, Stitch Bidco Limited. This payment was funded from excess liquidity in order to facilitate a repayment of the Group's Investor Loan Notes, thereby reducing accrued interest payable upon maturity.

On 12 May 2023, the Group extended the term of the ABL RCF with Wells Fargo for a renewed four-year term. See further details in note 26.



Russell Harrison

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Bournemouth International Airport
Hurn, Christchurch
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BH23 6HG

22 June 2023

Hobbycraft Trading Limited

Independent Auditor's 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 19 February 2023 which comprise the Profit and Loss Account, Balance Sheet, 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 19 February 2023 and of its 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.

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 its 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 its 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").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management, directors and sales staff.
- Using analytical procedures to identify any unusual or unexpected relationships.

Hobbycraft Trading Limited

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

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that management may be in a position to make inappropriate accounting entries, the risk of bias in accounting estimates and judgements, the risk that sale of goods is overstated through the posting of journal entries outside the normal revenue system postings, and the risk of overstatement of adjusted EBITDA through the classification of costs.

We did not identify any additional fraud risks.

We also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included:
 - Entries posted to revenue, cash, and borrowings accounts for which the other side of the journal was posted to an unexpected account;
 - Entries which reclassify costs and income impacting the presentation of adjusted EBITDA
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, GDPR and PCI compliance and certain aspects of company legislation recognising the nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Hobbycraft Trading Limited

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

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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.

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 19, 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.

Hobbycraft Trading Limited

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

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.



William Smith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Gateway House,
Tollgate,
Chandlers Ford,
SO53 3TG

22 June 2023

Hobbycraft Trading Limited

Profit and Loss Account for the 52 weeks ended 19 February 2023

		2023	One-off items and fair value gain/(loss) on financial instruments	2023	2022	One-off items and fair value gain/(loss) on financial instruments	2022
	Note	£'000	£'000	£'000	£'000	£'000	£'000
		Trading results		Total	Trading results		Total
Revenue	2	211,098	-	211,098	203,131	-	203,131
Cost of sales	3	(90,921)	(161)	(91,082)	(87,928)	1,049	(86,879)
Gross profit		120,177	(161)	120,016	115,203	1,049	116,252
Operating expenses (before depreciation, amortisation, share-based payments and monitoring fees)	3	(109,851)	-	(109,851)	(102,440)	(493)	(102,933)
Other operating income	3	359	-	359	2,217	-	2,217
Adjusted EBITDA		10,685	(161)	10,524	14,980	556	15,536
Depreciation and amortisation	3	(6,985)	-	(6,985)	(6,055)	-	(6,055)
Share-based payments	19	(694)	-	(694)	(685)	-	(685)
Monitoring fees	24	(150)	-	(150)	(150)	-	(150)
Operating profit		2,856	(161)	2,695	8,090	556	8,646
Finance income	6	98	-	98	-	-	-
Finance costs	7	(463)	-	(463)	(449)	-	(449)
Profit before taxation		2,491	(161)	2,330	7,641	556	8,197
Tax on profit	8	(361)	31	(330)	(1,019)	(106)	(1,125)
Profit for the financial year		2,130	(130)	2,000	6,622	450	7,072

All amounts relate to continuing activities. The notes on pages 25 to 52 form part of these financial statements.

Hobbycraft Trading Limited
Balance Sheet as at 19 February 2023

Company number: 00806269

		19 February 2023	20 February 2022 (restated)
	Note	£'000	£'000
Fixed assets			
Intangible assets	9	3,168	3,032
Tangible assets	10	20,140	21,554
		23,308	24,586
Current assets			
Inventories	12	42,415	38,770
Debtors (including £2,357k (2022: £4,263k) due after more than one year)	13	10,494	12,123
Cash and cash equivalents		32,313	33,038
		85,222	83,931
Creditors: amounts falling due within one year	14	(39,686)	(42,498)
Net current assets		45,536	41,433
Total assets less current liabilities		68,844	66,019
Creditors: amounts falling due after more than one year	15	(9,757)	(9,598)
Provision for liabilities	16	(442)	(470)
Net assets		58,645	55,951
Capital and reserves			
Called up share capital	20	8	8
Capital redemption reserve		1	1
Capital contribution reserve	19	3,655	2,961
Profit and loss account		54,981	52,981
Total shareholders' funds		58,645	55,951

The details of the restatement are included in note 1. The financial statements and the notes on pages 25 to 52 were approved by the Board of Directors, authorised for issue on 22 June 2023 and signed on its behalf by:



Russell Harrison

Hobbycraft Trading Limited

Statement of Changes in Equity for the 52 weeks ended 19 February 2023

	Called up share capital £'000	Capital redemption reserve £'000	Capital contribution reserve £'000	Profit and loss account £'000	Total £'000
As at 21 February 2021 (as previously reported)	8	1	2,276	61,600	63,885
Impact of restatement	-	-	-	(691)	(691)
As at 21 February 2021 (restated) (see note 1)	8	1	2,276	60,909	63,194
Profit for the financial year	-	-	-	7,072	7,072
Dividends (see note 20)	-	-	-	(15,000)	(15,000)
Share-based payment expense	-	-	685	-	685
As at 20 February 2022 (restated) (see note 1)	8	1	2,961	52,981	55,951
Profit for the financial year	-	-	-	2,000	2,000
Share-based payment expense	-	-	694	-	694
As at 19 February 2023	8	1	3,655	54,981	58,645

The notes on pages 25 to 52 form part of these financial statements.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

1 Accounting policies

Statement of compliance

Hobbycraft Trading Limited is a private limited company 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 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 20 February 2023.

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 and Loss Account. 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 and can be obtained from 7 Enterprise Way, Aviation Park, Hurn International Airport, Christchurch, Dorset, BH23 6HG. 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.

Prior period restatement

Since the lease inception on 5 November 2012, the Group recorded the rental expense relating to the Distribution Centre ('DC') lease in line with invoices received, adjusted for agreed rent-free periods. During the 52 weeks ended 19 February 2023, management identified a stepped rent clause within the DC lease agreement. In line with the requirements of FRS 102, the impact of the stepped rent clause should be spread over the life of the lease and the prior year comparatives have been restated to reflect this.

The impact of this adjustment affected reserves as at 21 February 2021, with a corresponding adjustment required to Accruals and Deferred Income (both falling due within one year and after more than one year). The impact on the Balance Sheet as at 21 February 2021 is outlined below. The impact on reserves, and net assets, was £691k.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

1 Accounting policies (continued)

Prior period restatement (continued)

Balance Sheet	Accruals and deferred income falling due within one year £'000	Accruals falling due after more than one year £'000	Profit and loss account (reserves) £'000
At 21 February 2021 (reported)	10,759	9,042	(134,792)
DC stepped rent adjustment	37	654	(691)
At 21 February 2021 (restated)	10,796	9,696	(135,483)

There was no restatement required to the Income Statement for the 52 weeks ended 20 February 2022, with the only further change being the classification between current and non-current Accruals and Deferred Income, as outlined below. The impact on reserves, and net assets, was unchanged at £691k.

Balance Sheet	Accruals and deferred income falling due within one year £'000	Accruals falling due after more than one year £'000
At 20 February 2022 (reported)	10,751	9,336
DC stepped rent adjustment	46	645
At 20 February 2022 (restated)	10,797	9,981

Going concern

The Company reported an operating profit of £2.7m (2022: £8.6m). This was due to the weak consumer confidence brought about by the cost-of-living crisis, which meant footfall remained well below pre-pandemic levels across the UK retail market, as well as the unprecedented levels of inflationary cost pressures across the business.

The Company's closing cash position was £32.3m (2022: £33.0m) and the Company also has access to an Asset Backed Lending Revolving Credit Facility (ABL RCF) of up to £35.0m (undrawn at year end). The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the reasons outlined below.

The directors have performed financial modelling on projected cash flows for a period of 12 months from the date of approval of these financial statements, which indicate that the Company will have sufficient funds to meet its liabilities as they fall due for that period. The modelling includes a sustained downturn in sales driven by a reduction in store footfall and online traffic. This continued reduction in demand reflects an assumption of further weakening in consumer sentiment due to the ongoing cost of living pressures faced by our customers. The directors have also chosen to model a further period of cash flows up to February 2025, with no liquidity issues noted. As part of the assessment, the directors have only assumed a moderate value of cost-saving and cash preservation initiatives.

The modelling shows that the Company would continue to have sufficient liquidity to meet its liabilities as they fall due and that the covenants attached to the ABL RCF working capital facility would continue to be met.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

1 Accounting policies (continued)

Going concern (continued)

As outlined in note 26, the Company extended the term of the ABL RCF on 12 May 2023. The change included a revision to the allowable capital expenditure within the FCCR covenant calculation, which increases the headroom going forwards and enhances the liquidity of the Company.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and therefore have prepared the financial statements on a going concern basis.

Accounting judgements, estimates 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.

Judgements represent key decisions which have been made by management when applying the Company's significant accounting policies. Where there is estimation uncertainty or assumptions involving the future that have a significant risk of material uncertainty these are disclosed as estimates.

The Company makes estimates, judgements and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Judgements

The following judgements are considered by management to have the most significant impact to the financial statements:

- **Going concern**

Judgement is applied by the Directors as to whether it is appropriate to prepare the financial statements on a going concern basis, taking into account the performance of the Company and the principal risks and uncertainties. The going concern assessment is detailed on page 20 and page 29.

- **Classification of exceptional/one-off items**

Management consider that Adjusted Trading EBITDA reflects the trading performance of the Company and exercise judgement in determining what is included within the exceptional and one-off items classification. Significant items of income and expense that are not considered in the ordinary course of business are separately disclosed to help provide an indication of the Company's underlying performance. An Adjusted Trading EBITDA reconciliation is included within note 3, the Company's accounting policy is included on page 41.

- **Share-based payments**

The Company operated two share-based payment schemes during the period: the Hobbycraft Share Offer Plan and the Executive Scheme. Where 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.

Other areas of judgement that are not disclosed as significant judgements as they are not considered to give rise to material adjustment are:

- **Debt restructuring and modification**

Judgements are required when the Company periodically reviews its debt structure, which may lead to revisions to debt terms or interest rates, repayments and partial or full waivers of accrued interest. For the year ending 21 February 2021, the Group executed a refinancing, which required management to apply judgement on the fees and transaction costs that were directly attributable to the raising of the debt and therefore eligible to be capitalised against the carrying value of the debt and amortised over its term. See note 15 for further details.

Where amendments to debt agreements are made management consider whether these amendments relate to a modification or an extinguishment of the existing instruments. Judgement is required when considering if the amendments are substantially different and therefore whether an extinguishment event has occurred. See note 15 for further details.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

1 Accounting policies (continued)

Accounting judgements, estimates and assumptions (continued)

- 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.

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 estimated 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.

Estimates

The following estimates are considered by management to involve a significant degree of estimation uncertainty.

- Inventory provisions

Provisions are also made to reflect unrecorded stock loss at our distribution centre and in stores, which may have occurred between the date of the last full count and the period end. A separate stock loss provision is calculated for each product category and each store, based on the following breakdown of categories: Art, Celebration, Creative Kitchen, Essentials, Framing, Haberdashery & Fabrics, Hobbies, Homecrafts, Kids, Knit & Stitch, and Papercraft.

A historical stock loss percentage is applied to the sales since the last full count for each product category. The percentage of sales is estimated by reference to the historical stock loss rates for the relevant store and category, which are adjusted to reflect any known change in circumstances such as a change of store management team, an increase or decrease in local crime rates, a change of store layout or security measures, or to correct for an anomaly in the historical data. The stock loss percentage reflects the losses between the date of the stock count in the financial year ending 21 February 2021 up until the latest stock count in the financial year ending 19 February 2023, with an average reference period of 2.5 years.

There is estimation uncertainty to the extent that past stock loss percentages may not be reflective of recent stock loss trends. We have performed sensitivity analysis to assess a range of provision values, including modelling a historical loss reference period of up to 6 months shorter or up to 12 months longer. The variable with the potential to cause the most material inaccuracy is the historical loss percentage itself. The modelling demonstrates that if recent stock loss trends were 25% worse than the historical period, the period end provision would increase from £700k to £927k, whereas if stock loss had improved by 25%, the provision would reduce from £1,115k to £528k.

- Share-based payments

Management are required to exercise judgement in estimating the date of change of control of the Company and in estimating the equity value of the Group using a multiple applied to Adjusted EBITDA. If the multiple used in the current financial year were to be increased by 1.0x, the Company's share-based payment charge in the year would increase by £190k. If the multiple were to be reduced by 1.0x, the Company's share-based payment charge would reduce by £207k. 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.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

1 Accounting policies (continued)

Accounting judgements, estimates and assumptions (continued)

Management consider the following to be non-significant areas that include a degree of estimation uncertainty:

- **Inventory provisions**
Provisions are made to write down the value of inventory whenever its expected net realisable value is lower than its book value on the balance sheet.
- **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.
- **Revenue adjustment**
Estimation is used when calculating the timing of when goods are delivered or collected in order to show the related revenue as deferred income and to make corresponding adjustments to inventory and cost of sales. The estimates are based on system-driven delivery and collection records where available, along with judgements based on historical patterns.
- **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 is 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.

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 and services 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 specific criteria have been met for each of the Company's activities as described below:

- Sales of goods income is recognised when control passes which is deemed to be when goods are delivered or collected by customers in store under Click and Collect and title is passed. E-commerce sales are recognised when the goods are delivered to the customer or collected from a store by the customer. In practice, it is necessary to estimate the timing of when goods are delivered or collected to show the related revenue as deferred income and to make corresponding adjustments to inventory and cost of sales. The estimates are based on system-driven delivery and collection records if available, along with judgements based on historical patterns.
- Revenue from workshop classes is recognised after the class has taken place which is the point at which the services have been transferred.
- Subscription contracts are assessed to determine the consideration payable for each contract component. Revenue from each component is recognised as the Group performs its obligations under the terms of the contract. Where the contract provides for an indeterminate number of acts, revenue is recognised on a straight-line basis over the term of the contract.

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.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

1 Accounting policies (continued)

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.

Credit card charges are presented within operating expenses.

Other operating income

Other operating income includes government support for furlough income and local restriction support grants which are accounted for in line with the accruals method and recognised in the Profit and Loss Account for the period that they relate to.

Other operating income includes the proceeds received from the recycling of materials and income received from suppliers who utilise excess capacity in our store delivery network to facilitate shipping of goods into our distribution centre.

Proceeds from insurance claims that relate to loss of profit from disruption to trade are also recognised within other operating income. Insurance proceeds are recognised when the loss event that creates a right for the Company to assert a claim has occurred and the claim is not disputed by the insurer.

Exceptional and one-off items

Significant items of income and expense that do not occur 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.

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 Trading EBITDA reflects the trading performance of the Company, excluding the impact of capital investment. Adjusted Trading EBITDA is operating profit/(loss) before exceptional and other one-off items, share-based payment charge or credit, movements in fair value of financial instruments, any impairment charge or write back of tangible and intangible assets, any Profit and Loss Account charge or credit in relation to the onerous lease provision, shareholder monitoring fees, depreciation and amortisation.

Finance income and finance costs

Finance income relates to interest income on cash deposits.

Finance costs relate to banking fees and the fees and interest accruing on the ABL RCF. Finance costs also includes the amortisation of capitalised debt fees and issue costs which are initially recognised as a reduction in the proceeds of the associated capital instrument and are amortised over the expected life of the debt.

Investments

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

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

1 Accounting policies (continued)

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, including internal staff costs where appropriate. Where an asset retirement provision has been recognised the anticipated cost is included within leasehold improvements.

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 Profit and Loss Account 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 Profit and Loss Account. The Company assesses at each reporting date whether tangible fixed assets are impaired.

Intangible assets and amortisation

Intangible assets acquired separately are capitalised at cost. Internally generated intangible assets are capitalised when certain criteria are met in accordance with Section 18 of FRS 102, expenditure on research activities is recognised in the Profit and Loss Account as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Company intends, and has the technical ability and sufficient resources, to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the Profit and Loss Account as an expense as incurred.

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:

Software	3 years
----------	---------

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 19 February 2023

1 Accounting policies (continued)

Intangible assets and amortisation (continued)

Included within software costs are website development costs that are expected to generate future revenue, in excess of the costs incurred, and that meet all other capitalisation criteria. Costs have been capitalised within intangible assets and are amortised over 3 years. Only costs from the development phase of the project that meet all criteria are capitalised, all other costs are expensed as incurred. Costs incurred relating to maintenance are also expensed as incurred.

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.

Property provisions include asset retirement provisions, dilapidations provisions and onerous lease provisions. The anticipated expenditure is reviewed annually and is based on information available at the reporting date; the anticipated costs are adjusted for expected inflation and are discounted back to present value.

The Company recognises asset retirement provisions at the lease inception where a material cost is anticipated to remove any fixtures and fittings and to restore the site to the condition required by the terms and conditions of the lease. A corresponding asset is recorded within the leasehold improvements category of tangible assets.

Where there is an expectation that the Company will exit a specific leased site a dilapidations provision may also be recorded where landlord assets have been consumed or damaged during the lease.

Onerous lease provisions are recorded where the unavoidable costs of a lease exceed the economic benefit expected to be received from it and there is an expectation to exit the lease.

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 Profit and Loss Account 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 Profit and Loss Account on a straight-line basis over the lease term or to the break clause, whichever best reflects the economic benefit of the lease.

Short-term rent-free periods received as support from landlords during COVID-19 lockdown periods are recognised immediately over the period to which the benefit relates, in accordance with the FRED 76 amendments to FRS 102 as issued by the FRC.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

1 Accounting policies (continued)

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, based on amounts expected to be paid to the tax authorities.

Each entity within the Group prepares its own tax return and is liable for any tax payable. Where entities make tax losses, these may be transferred to another entity within the Group for no payment. Our accounting policy is to disclose these transfers within the tax reconciliations of each individual entity's annual report.

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 in the financial statements.

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 when the timing differences are expected to reverse, and they 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 the Profit and Loss Account 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 the Profit and Loss Account 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 (which includes cash collateral), cash and bank balances, and loans to fellow Group companies, are initially recognised at transaction price plus directly 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 present value of the estimated cash flows discounted at the asset's original effective interest rate. The loss is recognised in the Profit and Loss Account 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 the Profit and Loss Account within operating expenses.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

1 Accounting policies (continued)

Financial instruments (continued)

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.

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 the Profit and Loss Account in cost of sales. The realised gain or loss on settled derivatives is recognised in the Profit and Loss Account 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. Receivables relating to customer payment methods recovered in 2 days are also included within the cash and cash equivalents balance. Cash collateral held on deposit is considered illiquid and is reported within other receivables.

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.

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.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

1 Accounting policies (continued)

Financial instruments (continued)

Non-financial assets impairment

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" ("CGUs")). 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 the Profit and Loss Account. 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.

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.

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 such that the employees are also 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.

During the period grants were made to a small number of employees, some of whom are already members of the existing schemes. Unlike the existing grants these shares are not eligible to participate in the cash-settled bonus on the change of control of the Group, and as a result the shares issued in this grant have been accounted for as equity-settled. At the date of grant the fair value of the shares has been calculated and is being recognised in the Profit and Loss Account over the vesting period, reflecting management's expectation of the date of change of control of the Group. The corresponding entry is recognised in equity, within the capital contribution reserve.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

1 Accounting policies (continued)

Share-based payments (continued)

The fair value of 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. Where these awards are deemed to be cash-settled their fair value is reviewed on an annual basis with a corresponding liability being recognised.

The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

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 includes £598k from workshop ticket sales (2022: £378k) and subscription revenue of £2k (2022: £nil).

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

Operating expenses (before depreciation, amortisation, share-based payments and monitoring fees) are made up as follows:

	2023 £'000	2022 £'000
Distribution and fulfilment expenses	96,787	88,724
Administrative expenses	13,064	13,716
	109,851	102,440

Distribution and fulfilment expenses includes all costs incurred at our distribution centre and in distributing goods to stores or directly to customers via our E-commerce channel. It also includes all costs incurred to operate our store estate.

In addition to the operating expenses, there were the following one-off items in the prior year:

	2023 £'000	2022 £'000
Refinancing costs	-	(19)
Website development costs	-	437
Professional fees in respect of business strategic review	-	75
	-	493

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

3 Operating profit (continued)

In the prior year, the refinancing costs related to the refinancing, which completed on 3 February 2021. A credit was recognised in the current period due to actual costs incurred being lower than anticipated. Website development costs related to the dual running costs incurred during the development of the new website platform. The professional fees in respect of the business strategic review included audit fees relating to an additional audit scope agreed with the Audit Committee.

Other operating income consists of the following:

	2023	2022
	£'000	£'000
Government grants	-	1,892
Other operating income	345	325
Insurance claim proceeds	14	-
	359	2,217

In the prior year, the government grants included £992k claimed under the Coronavirus Job Retention Scheme and £900k of local council grants to compensate for store closures. Other operating income includes the proceeds received from the recycling of materials and income received from suppliers that utilise excess capacity in our store delivery network.

	2023	2022
	£'000	£'000
Profit before taxation is stated after charging/(crediting):		
Loss on disposal of tangible and intangible assets	10	2
Depreciation of tangible assets	5,666	5,413
Amortisation of intangible assets	1,319	642
Fees payable to the Company's auditors for the audit of the Company's financial statements	200	156
Operating leases - plant and machinery	223	231
Operating leases - other	23,482	23,127
Fair value movement of derivative financial instruments	161	(1,049)
Other exchange gain	(1,930)	(607)
Inventory recognised as an expense	92,851	88,535

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

3 Operating profit (continued)

Adjusted Trading EBITDA, a non-GAAP measure, is calculated as follows:

		2023	2022
	Note	£'000	£'000
Operating profit		2,695	8,646
Add back/(deduct):			
One-off operating expenses	3	-	493
Fair value movement of derivative financial instruments	3	161	(1,049)
Share-based payment charge	19	694	685
Shareholder monitoring fees	24	150	150
Depreciation	10	5,666	5,413
Amortisation	9	1,319	642
Adjusted Trading EBITDA		10,685	14,980

4 Employees

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

	2023	2022
	Number	Number
Selling and distribution	1,318	1,295
Administration	151	132
	1,469	1,427

Staff costs (for the above persons including directors):

	2023	2022
	£'000	£'000
Wages and salaries	39,338	37,096
Social security costs	2,982	2,628
Other pension costs (see note 18)	970	897
Share-based payment expense (see note 19)	694	685
Total direct costs of employment	43,984	41,306

In addition to the above, costs relating to temporary and contract staff totalled £3,131k (2022: £3,961k).

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

5 Directors' emoluments

	2023	2022
	£'000	£'000
Emoluments (including benefits in kind)	809	779
Pension contributions to money purchase schemes	36	36
Share-based payment expense/(credit) (see note 19)	222	(5)
	1,067	810

As at the period end date, three (2022: three) directors held shares under a long-term incentive plan.

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

	2023	2022
	£'000	£'000
Emoluments (including benefits in kind)	317	306
Pension contributions to money purchase schemes	10	10
Share-based payment expense/(credit) (see note 19)	58	(90)
	385	226

The highest paid director did not exercise any shares in the period (2022: none).

During the period benefits were accruing to three (2022: three) directors under defined contribution schemes.

6 Finance income

	2023	2022
	£'000	£'000
Interest receivable on bank deposits	98	-

7 Finance costs

	2023	2022
	£'000	£'000
Interest payable on overdrafts and bank loans	458	449
Asset retirement provision unwinding	5	-
	463	449

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

8 Tax on profit

	2023 £'000	2022 £'000
Current tax:		
UK corporation tax on profits for the period	304	1,689
Adjustments in respect of previous periods	(666)	16
	(362)	1,705
Deferred tax:		
Origination and reversal of timing difference	61	(43)
Adjustments in respect of previous periods	631	29
Effect of changes in tax rates	-	(566)
	692	(580)
Total tax on profit	330	1,125

The tax assessed for the period is lower (2022: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2023 £'000	2022 £'000
Profit before taxation	2,330	8,197
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2022: 19%)	444	1,557
Effects of:		
Expenses not deductible for tax purposes	488	491
Income not taxable	(147)	(79)
Group relief claimed not paid for	(446)	(323)
Adjustments in respect of previous periods	(35)	45
Re-measurement of deferred tax – change in UK tax rate	1	(566)
Deferred tax not recognised	25	-
Total tax charge for the period	330	1,125

The Spring Budget 2023 confirmed that from 1 April 2023 the corporation tax rate will increase to 25% and has therefore been included in any transactions expected on or after 1 April 2023.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

9 Intangible assets

	Software
	£'000
Cost	
At 20/02/2022	8,064
Additions	1,458
Disposals	(3,106)
At 19/02/2023	6,416
Accumulated amortisation	
At 20/02/2022	5,032
Charge for the period	1,319
Disposals	(3,103)
At 19/02/2023	3,248
Net book value	
At 19/02/2023	3,168
At 20/02/2022	3,032

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 19 February 2023

10 Tangible assets

	Leasehold improvements	Plant and machinery	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 20/02/2022	50,710	3,326	4,334	21,279	79,649
Additions	1,428	91	727	2,013	4,259
Disposals	(124)	(536)	(1,602)	(2,015)	(4,277)
At 19/02/2023	52,014	2,881	3,459	21,277	79,631
Accumulated depreciation					
At 20/02/2022	35,898	2,794	2,858	16,545	58,095
Charge for the period	3,051	171	553	1,891	5,666
Disposals	(123)	(535)	(1,597)	(2,015)	(4,270)
At 19/02/2023	38,826	2,430	1,814	16,421	59,491
Net book value					
At 19/02/2023	13,188	451	1,645	4,856	20,140
At 20/02/2022	14,812	532	1,476	4,734	21,554

Depreciation 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 19 February 2023

11 Investments

	Group companies £
Cost	
At 20 February 2022 and 19 February 2023	2
Net book value	
At 20 February 2022 and 19 February 2023	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

	2023	2022
	£'000	£'000
Goods for resale	42,415	38,770

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 £36k at 19 February 2023 (2022: £75k). Write-downs and any reversal of write-downs are included in cost of sales. A provision is recognised to reflect stock loss incurred between the last full count and the period end date. At 19 February 2023 the provision was £700k (2022: £1,115k).

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

13 Debtors

	2023	2022
	£'000	£'000
Trade debtors	361	238
Amounts owed by Group undertakings	674	1,660
Other debtors	1,237	866
Deferred tax (see note 17)	1,463	2,155
Derivative financial assets	-	110
Prepayments and accrued income	6,759	7,094
	10,494	12,123
Due within one year	8,137	7,860
Due after more than one year	2,357	4,263
	10,494	12,123

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

Amounts owed by Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand, although they are not expected to be recalled within one year.

14 Creditor amounts falling due within one year

	2023	2022 (restated)
	£'000	£'000
Trade creditors	17,815	18,595
Corporation tax	109	686
Other taxation and social security	7,612	4,515
Other creditors	4,916	9,447
Derivative financial liabilities	51	-
Accruals and deferred income	9,183	9,255
	39,686	42,498

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

The details of the restatement to accruals and deferred income are included in note 1.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

15 Creditor amounts falling due after more than one year

	2023	2022 (restated)
	£'000	£'000
Accruals	9,757	9,598

Accruals 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 or to the first market rent review.

The details of the restatement to accruals are included in note 1.

16 Provisions for liabilities

The provisions in the financial statements are as follows:

	Property provisions £'000
At 20 February 2022	470
Provisions created during the period	6
Movement in provision within the period	(39)
Unwinding of discount during the period	5
At 19 February 2023	442

Property provisions include asset retirement provisions and dilapidations provisions. As at the reporting date the Company had no onerous leases (2022: none). The property provisions unwind over the remaining life of the lease, the longest lease term being 13 years from the reporting date.

17 Deferred tax

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

	2023	2022
	£'000	£'000
Decelerated capital allowances	1,066	1,610
Short term timing differences	397	545
	1,463	2,155

The movement on the deferred tax asset is as follows:

	£'000
At 20 February 2022	2,155
Deferred tax credit in Profit and Loss Account for the period	(61)
Adjustments in respect of previous periods	(631)
At 19 February 2023	1,463

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 and share-based payments.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

18 Pensions and similar obligations

During the period the Company made contributions on behalf of a number of employees and three directors (2022: three) 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, amounted to £970k (2022: £897k).

Contributions totalling £139k (2022: £131k) 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.

Modifications

On 30 November 2018, Hobbycraft Group Limited amended the terms for both schemes such that the employees are also 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 in respect of shares issued prior to 16 February 2020.

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

Accounting treatment

During prior periods the grants 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.

Shares issued since 16 February 2020 are not eligible to participate in the cash-settled bonus on the change of control of the Group, and as a result they have been accounted for as equity-settled. At the date of grant the fair value of the shares was calculated and is being recognised in the Profit and Loss Account over the vesting period, reflecting management's expectation of the date of change of control of the Group. The corresponding entry is recognised in equity in the capital contribution reserve.

The fair value of 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. Where these awards are deemed to be cash-settled their fair value is reviewed on an annual basis.

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

19 Share-based payments (continued)

Executive Scheme

There were no shares granted to employees of the Company under the Executive Scheme in the current period (2022: 20,000,000 "A" ordinary shares).

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. Employees would be required to sell their shares in the event of a sale or listing of the Group.

There were 14,000,000 "A" ordinary shares granted to employees of the Company under the Hobbycraft Share Offer Plan during the period (2022: 59,000,000 "A" ordinary shares). All shares issued in the year were allocated within the EBT.

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:

	2023	2022
	£'000	£'000
Equity-settled share-based payment expense	694	685

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

	2023	2022
	£'000	£'000
Authorised		
7,500 (2022: 7,500) ordinary shares of £1 each	8	8
1,650 (2022: 1,650) "A" ordinary shares of £1 each	2	2
	10	10
Allotted, called up and fully paid		
6,600 (2022: 6,600) ordinary shares of £1 each	7	7
1,376 (2022: 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 19 February 2023

20 Called up share capital (continued)

No dividends were paid in the period. During the prior year, a dividend of £15.0m was paid to the Company's immediate parent undertaking, Stitch Bidco Limited. The dividends were paid as part of a series of transactions within the Group to facilitate the payment of Payment In Kind (PIK) notes issued by a fellow Group company, Stitch 2 Limited. In order to facilitate this payment, a dividend was paid by the Company to repay part of an intercompany loan held by Stitch Bidco Limited, the Company's parent undertaking. This partial repayment flowed up through other Group entities to Stitch 2 Limited where a cash payment was made.

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
	2023	2023	2023	2022	2022	2022
Payment due:	£'000	£'000	£'000	£'000	£'000	£'000
Not later than 1 year	21,358	381	21,739	22,364	268	22,632
Later than 1 year and not later than 5 years	56,790	672	57,462	53,796	563	54,359
Later than 5 years	11,403	-	11,403	14,753	-	14,753
Total	89,551	1,053	90,604	90,913	831	91,744

22 Capital commitments

At 19 February 2023 the Company had capital commitments of £883k (2022: £457k).

23 Contingent liabilities

At 19 February 2023 the Company had no contingent liabilities (2022: £nil).

Hobbycraft Trading Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 19 February 2023

24 Related party transactions

Transactions with shareholders

Haskins Holdings Limited and Hobbycraft Group Limited have 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. He is also a shareholder of Hobbycraft Group Limited holding 1,754 'A' shares and 31,906,305 'B' shares.

Haskins Garden Centres Limited charged Hobbycraft Trading Limited £633k (2022: £521k) in the period in property rentals and overhead recharges.

At 19 February 2023 £nil (2022: £nil) was due to Haskins Garden Centres Limited.

At 19 February 2023 £nil (2022: £nil) was due to Smiling Cow Limited, which is an entity controlled by a connected party. During the period Smiling Cow Limited charged Hobbycraft Trading Limited £nil (2022: £1k) in relation to copywriting services.

Transactions with Private Equity investors

Monitoring fees of £150k (2022: £150k) payable to Bridgepoint Advisers Limited were charged to the Profit and Loss Account in the 52 weeks ended 19 February 2023. At 19 February 2023 there was £25k outstanding to Bridgepoint (2022: £325k).

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, Hurn International Airport, Christchurch, Dorset, BH23 6HG.

The majority shareholder, Bridgepoint Europe IV (Nominees) Limited, manages the fund in which Hobbycraft Group Limited is held, Bridgepoint Europe Portfolio IV LP, and the Group is ultimately indirectly wholly owned by Bridgepoint Group plc.

26 Events after the reporting period

Dividend payment

On 13 March 2023, the Company made a dividend payment of £15.1m to its parent company, Stitch Bidco Limited. This payment was funded from excess liquidity in order to facilitate a repayment of the Group's Investor Loan Notes, thereby reducing accrued interest payable upon maturity.

Extension of the Asset Backed Loan ('ABL') Rolling Credit Facility ('RCF')

On 12 May 2023, the Group extended the term of the ABL RCF with Wells Fargo for a renewed four-year term. Following this extension, the ABL RCF now matures in May 2027. As part of this extension, the following changes were made to the loan agreement:

- The interest rate was amended to 2.75% + SONIA (previously 2.50% + SONIA).
- The non-utilisation fee was amended to 1.00% (previously 0.50%).
- A revision to allowable capital expenditure within the FCCR covenant calculation, which increases the headroom going forwards.

Arrangement fees of £263k were incurred in relation to this extension.