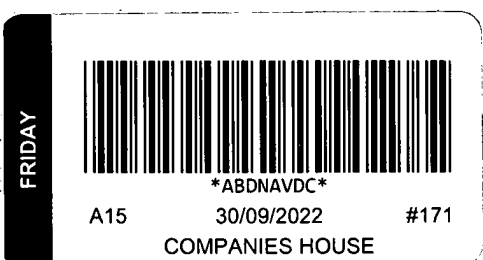


Registered number: 06598773

itsu [grocery] ltd

Annual report and Financial Statements

For the 52 week period ended 30 December 2021



itsu [grocery] ltd

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itsu [grocery] ltd

Company information

Directors

Mr J Metcalfe
Ms C Santagada
Mr C Schlee

Company secretary

Prettys Solicitors LLP

Registered number

06598773

Registered office

53 Victoria Street
London
SW1H 0EU

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Strategic report

For the period ended 30 December 2021

The directors present their Strategic report for the Company for the 52 week period ended 30 December 2021. The comparative results are for the 53 week period ended 31 December 2020.

Business review and future developments

The Company aims to deliver restaurant quality Asian inspired products to the grocery, convenience, online, and wholesale channels as well as supplying core products to its fellow Group company, itsu Limited.

Net turnover for the period was up 39% YOY, from £21,001k in FY20 to £29,143k in FY21. Removing itsu Limited from the sales figures, the Company's net turnover grew 51% YOY. The growth was driven by distribution gains, increased penetration of the frozen ranges, rate of sale improvements across multiple lines, new listings, international growth, annualisation of previous period listings, and new product/range launches. The Company benefitted from the mix of its product portfolio putting it in a position to react to the changing shopper behaviours caused by the pandemic. Out of the 14 ranges on offer, all but 1 posted year on year growth. International gross sales (turnover net of VAT before any selling costs) grew by 450% vs. FY20 (£114k FY20 vs. £627k FY21), despite the ongoing challenges of dealing with new regulations in trading with the EU.

In FY21 the Company continued to back its range of frozen gyoza, via a major marketing campaign. The campaign featured on linear TV with a 30 second advertisement in prime spots on Channel 4 as well as digital TV and YouTube. The campaign ran over 3 main bursts in April, June and November, delivered 17.4 million impressions and drove a significant increase in searches online for 'itsu gyoza'.

The Company improved its waste management from 1.36% of gross sales in FY20 to 0.35% in FY21 and continued to work with FareShare to donate stock that was a waste risk (36,464 KG were donated).

The Company continues to adopt the following strategies:

- To grow sales organically through distribution increases, new customer acquisitions, rate of sale improvements, strong promotional performance and new product listings;
- To ensure innovation remains a core part of the business through existing product development, product re-engineering and new product development;
- To grow the Company internationally;
- To continue to develop the brand through effective and smart marketing activities aimed at increasing awareness and penetration;
- To improve profitability through procurement initiatives and distribution cost reductions;
- To improve working capital, through continuous review of creditor days, debtor days and stock holding cover and negotiating terms with customers and suppliers.

Principal risks and uncertainties

The Company is subject to a number of risks. The key risks affecting the Company are set out below:

- Exposure to fluctuating commodity, labour, energy and packaging prices, which are partially mitigated through annual supplier negotiations though the current inflation rate represents a challenge as cost increases are occurring more frequently;
- Short supply of certain ingredients and packaging as the result of the ongoing conflict between Russia and Ukraine;
- Trade and foreign exchange risk partially mitigated via derivative instruments;
- New regulatory environment on imports and exports (clearance forms, duty, health certificates) as a result of ongoing BREXIT changes;
- Playing in highly competitive categories. The Company monitors market offerings and mitigates this risk through continuous innovation, target marketing and pricing structure;
- Reliance on a relatively small customer base;
- Exposure to fluctuating and increasing freight rates, as many of the Company's purchases are from Asia;

Strategic report (continued)

For the period ended 30 December 2021

- Operational complexity as a result of having a wide range of products sourced from different countries;
- Reliance on third party suppliers for all products. The Company continues to review and improve its operational supplier base and;
- The ongoing impact of the COVID-19 pandemic. The Company continues to monitor developments from the pandemic closely and implements contingency plans to mitigate the adverse impact on the Company's employees and operations.

The directors continuously identify and review key business risks and uncertainties.

Financial risk management

The directors regularly review the financial requirements of the company and the risks associated therewith. The company does not use complicated financial instruments. The company does not use derivative financial instruments for trading purposes. The Company operations are primarily financed by sales and intercompany loan. In addition to the primary financial instruments, the company has other financial instruments such as debtors, prepayments, trade creditors and accruals that directly arise from the company's operations.

Liquidity risk

The Company manages its cash and borrowing requirements in order to minimise interest expense, whilst ensuring the Company has sufficient liquid resources to meet the operating needs of the business.

Interest rate risk

The Company is exposed to fair value interest rate risk on its borrowings from itsu Limited.

Credit risk

Derivative instruments are purchased through reputable banks.

All customers who wish to trade on credit terms are subject to credit verification procedures. Trade debtors are monitored on an ongoing basis and provision is made for doubtful debts where necessary.

Key performance indicators (KPIs)

The key performance indicators for the 52-week period ended 30 December 2021 were:

- Gross turnover (turnover [net of VAT] before any selling costs) growth of +39% YOY, £31,669k in FY21 versus £22,818k in FY20
- Gross profit growth of +23% YOY, FY21 £9,917k vs FY20 £8,031k
- Waste FY21 of 0.35% of gross turnover, vs FY20 1.36% of gross turnover
- International gross turnover growth of +450%, from £114k in FY20 to £627k in FY21
- EBITDA growth of 56%, growing to £2,148k in FY21, vs £1,379k in FY20 (excluding the impact of exceptional costs relating to itsu Limited CVA in FY20)

Working capital management is another key performance indicator for the Company. The Company finished in a net cash position of £1,801k in FY21 (FY20: net cash £577k).

This report was approved by the board on 08 September 2022 and signed on its behalf.



Mr J Metcalfe
Director

itsu [grocery] Ltd

Directors' report

For the period ended 30 December 2021

The directors present their report and the audited financial statements of the Company for the 52 weeks ended 30 December 2021.

Financial risks

The section on financial risks which is detailed in the Strategic report, is included in this report by cross reference.

Future developments

The section on future developments which is detailed in the Strategic report, is included in this report by cross reference.

Principal activities

The Company's principal activity is to deliver restaurant quality Asian inspired products to the grocery, convenience, online and wholesale channels as well as supplying core products to itsu Limited.

Principal risks

The principal risks and uncertainties are disclosed in the Strategic report.

Business environment

The UK retail food market is made up of a large number of operators ranging from single owner managed establishments to large multi-site branded operations. itsu [grocery] Ltd's head office is in London, UK. The Company trades in the UK and internationally

Results and dividends

The profit for the financial period amounted to £2,070k (FY20: £1,377k).

Interim dividends totaling £Nil (FY20: £Nil) were paid out during the period. The directors have not proposed a final dividend for FY21.

Net assets

The Company had net current assets of £5,358k at the balance sheet date (FY20: £4,097k).

Qualifying third party indemnity provisions

During the period, and up to the date of approval of the financial statements, the Company had in place qualifying third party indemnity provision for the benefit of all the directors of the Company.

Directors

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

Mr J Metcalfe
Ms C Santagada
Mr C Schlee
Mr S Schoen (resigned 10 June 2021)

Donations

No donations for political or charitable purposes have been made by the Company during the period (FY20: £Nil).

Directors' report (continued)

For the period ended 30 December 2021

Going concern

The directors continue to adopt the going concern basis in preparing the company financial statements.

The going concern assessment is performed on a group basis at the Butterfly 21 Topco Limited level and the reason for adopting the going concern basis for the Company is that the directors have received a letter of support from the ultimate parent entity.

The directors have considered the availability of funding alongside detailed cash flow projections through to December 2023 to determine whether the group can meet obligations when they fall due. The cash flow projections consider recent trading in the Retail division, which is, encouragingly, trending towards 2019 levels, with a significant number of shops outperforming pre-pandemic sales.

In both a base case scenario and a severe but plausible downside scenario, the group plans to continue to reinvest in the business, increasing the retail store estate. This material cash outflow will allow the group to achieve its strategic objectives over the next 5 years. The downside scenario assumes a COVID-19 Omicron type scenario, with a sharper sales drop-off and a longer sales recovery period than seen through Omicron in Q1 2022.

In both the base case scenario and the downside scenario, the group has significant cash headroom, which includes a full repayment of the £10,000k RCF facility. In both cases, with the RCF facility being paid back in December, £10,000k (unconditional) B Loan Note facility from Bridgepoint is forecast to be used. Therefore, the directors have continued to adopt the going concern basis for the company financial statements.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

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

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

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

The directors are also 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.

itsu [grocery] ltd

Directors' report (continued)

For the period ended 30 December 2021

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the itsu [grocery] ltd Board Meeting.

This report was approved by the board on 08 September 2022 and signed on its behalf.



Mr J Metcalfe
Director

Independent auditors' report to the members of itsu [grocery] ltd

Report on the audit of the financial statements

Opinion

In our opinion, itsu [grocery] ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 December 2021 and of its profit for the period from 1 January 2021 to 30 December 2021;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 30 December 2021; and the Statement of income and retained earnings for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report to the members of itsu [grocery] ltd (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the period ended 30 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Independent auditors' report to the members of itsu [grocery] ltd (continued)

Responsibilities for the financial statements and the audit (continued)

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety (including food safety) and employment legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and managements bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management and review of board meeting minutes, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Challenging assumptions and judgements made by management in determining significant accounting estimates or judgements; and
- Identifying and testing unusual journal entries, in particular journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Emily Greybrook (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 September 2022

itsu [grocery] ltd

Statement of income and retained earnings

For the period 52 week period ended 30 December 2021

	Note	52 week period 30 December 2021 £000	53 week period 31 December 2020 £000
Turnover	5	29,143	21,001
Cost of sales		(19,226)	(12,970)
Gross profit		9,917	8,031
Distribution costs		(1,369)	(917)
Administrative expenses		(6,450)	(5,782)
Operating profit	6	2,098	1,332
Interest payable and similar expenses	9	(37)	(33)
Profit before taxation		2,061	1,299
Tax on profit	10	9	78
Profit for the financial period		2,070	1,377
Retained earnings at the beginning of the period		3,381	2,004
Profit for the financial period		2,070	1,377
Retained earnings at the end of the period		5,451	3,381

The Statement of income and retained earnings has been prepared on the basis that all operations are continuing operations.

	2021 £'000	2020 £'000
Operating profit	2,098	1,332
Depreciation and amortisation	50	47
Exceptional costs relating to itsu Limited CVA	-	1,553
Adjusted EBITDA*	2,148	2,932

*Adjusted EBITDA is defined as Earnings before interest, taxation, depreciation and amortisation, and exceptional items.

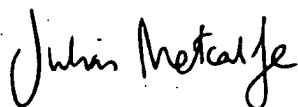
The notes on pages 12 to 25 form part of these financial statements.

itsu [grocery] ltd

**Balance sheet
As at 30 December 2021**

	Note	2021 £000	2021 £000	2020 £000	2020 £000
Fixed assets					
Tangible assets	11		93		74
Current assets					
Inventories	12	3,883		2,916	
Debtors	13	6,140		3,557	
Cash at bank and in hand	14	3,101		1,877	
		13,124		8,350	
Creditors: amounts falling due within one year	15	(7,766)		(4,253)	
Net current assets			5,358		4,097
Total assets less current liabilities			5,451		4,171
Creditors: amounts falling due after more than one year	16		-		(790)
Net assets			5,451		3,381
Capital and reserves					
Called up share capital	18		-		-
Retained earnings			5,451		3,381
Total shareholders' funds			5,451		3,381

The financial statements on pages 10 to 25 were approved and authorised for issue by the board and were signed on its behalf on 08 September 2022



Mr J Metcalfe
Director

The notes on pages 12 to 25 form part of these financial statements.

Notes to the financial statements

For the period ended 30 December 2021

1. General information

The Company's principal activity is to deliver restaurant quality Asian inspired products to the grocery, convenience, online and wholesale channels as well as supplying core products to itsu Limited.

itsu [grocery] ltd is a private company limited by shares and is incorporated and domiciled in England and Wales. The registered office is 53 Victoria Street, London, SW1H 0EU.

2. Statement of compliance

The individual financial statements of itsu [grocery] ltd have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Accounting policies

3.1 Basis of preparation of financial statements

The individual financial statements have been prepared on a going concern basis under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006. The accounting policies applied are consistent with prior period.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 4).

The company is a wholly-owned subsidiary of Butterfly 21 Topco Limited

The following principal accounting policies have been applied:

3.2 Going concern

The directors continue to adopt the going concern basis in preparing the company financial statements.

The going concern assessment is performed on a group basis at the Butterfly 21 Topco Limited level and the reason for adopting the going concern basis for the Company is that the directors have received a letter of support from the ultimate parent entity.

The directors have considered the availability of funding alongside detailed cash flow projections through to December 2023 to determine whether the group can meet obligations when they fall due. The cash flow projections consider recent trading in the Retail division, which is, encouragingly, trending towards 2019 levels, with a significant number of shops outperforming pre-pandemic sales.

In both a base case scenario and a severe but plausible downside scenario, the group plans to continue to reinvest in the business, increasing the retail store estate. This material cash outflow will allow the group to achieve its strategic objectives over the next 5 years. The downside scenario assumes a COVID-19 Omicron type scenario, with a sharper sales drop-off and a longer sales recovery period than seen through Omicron in Q1 2022.

In both the base case scenario and the downside scenario, the group has significant cash headroom, which includes a full repayment of the £10,000k banking facility. In both cases, with the RCF facility being paid back in December, £10,000k (unconditional) B Loan Note facility from Bridgepoint is forecast to be used.

Notes to the financial statements (continued)
For the period ended 30 December 2021

3. Accounting policies (continued)

3.3 Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders. The Group accounts comply with the statutory disclosure requirements.

The Company has taken advantage of the following exemptions:

- from preparing a statement of cash flows, required under Section 7 of FRS 102 and para 3.17(d), on the basis that it is a qualifying entity and its ultimate parent company, Butterfly 21 Topco Limited, includes the Company's cash flows in its own consolidated financial statements;
- from the financial instrument disclosures, required under FRS 102 paras 11.39 – 11.48A and 12.26 – 12.29, as the information is provided in the consolidated statement disclosure;
- from disclosing the Company's key management personnel compensation as required by FRS 102 para 33.7; and
- from disclosing related party transactions that are wholly owned within the same group under paragraph 33.1A from the provisions of FRS 102, on the grounds that at 30 December 2021 it was a wholly owned subsidiary.

3.4 Turnover

Turnover represents the invoiced amount of products sold less allowances, discounts and sales related rebates, excluding sales based taxes and listing fees. Sales are recognised at the point at which the Company has fulfilled its contractual obligations and the risks and rewards attached to the product have been transferred to the customer.

3.5 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is pound sterling (GBP).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the average rate relevant for the transactions in the month.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of income and retained earnings.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of income and retained earnings within 'administrative expenses'. All other foreign exchange gains and losses are presented in the Statement of income and retained earnings within 'other operating income'.

Notes to the financial statements (continued)
For the period ended 30 December 2021

3. Accounting policies (continued)

3.6 Finance costs

Finance costs are charged to the Statement of income and retained earnings over the term of the debt.

3.7 Borrowing costs

All borrowing costs are recognised in the Statement of income and retained earnings in the period in which they are incurred.

3.8 Tangible assets

Tangible assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Land and buildings leasehold	-	Straight line over the life of the asset
Plant and machinery	-	33% straight line
Fixtures, fittings and equipment	-	33% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of income and retained earnings.

Subsequent additions and major components

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

3.9 Inventories

Inventories are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out (FIFO) basis. Work in progress and finished goods include labour and attributable overheads. Inventory is provided against where there is an expectation of waste or obsolescence.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the Statement of income and retained earnings. Where a reversal of the impairment is required the impairment charge is reversed, up to the original impairment loss, in the Statement of income and retained earnings.

Notes to the financial statements (continued)

For the period ended 30 December 2021

3. Accounting policies (continued)

3.10 Financial instruments

With the exception of forward foreign exchange contracts which are described below, the Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties and loans to related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of income and retained earnings.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the Balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance sheet when there is an 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.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. 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. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate. The Company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

3.11 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Notes to the financial statements (continued)
For the period ended 30 December 2021

3. Accounting policies (continued)

3.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

3.13 Creditors

Short term creditors are measured at the transaction price.

3.14 Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Company's financial statements.

3.15 Operating leases agreements

Rentals paid under operating leases are charged to the Statement of income and retained earnings on a straight-line basis over the lease term.

Rent free periods or similar lease incentives are recognised on a straight-line basis in the Statement of income and retained earnings over the life of the lease.

3.16 Employee benefits

The Company provides a range of benefits to employees, including defined contribution pension plans.

i) Short term benefits

Short term benefits and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

ii) Defined contribution pension scheme

The Company contributes into a defined contribution pension plan for Company employees. The amount charged to the Statement of income and retained earnings represents the contributions payable to individual personal pension schemes for those individuals. The assets of the schemes are held separately from those of the Company.

iii) Long term incentive plans

Certain members of the management team are remunerated through a long-term incentive plan. This is a cash based scheme with amounts payable linked to the performance of itsu [grocery] Ltd. An accrual is recorded which represents management's best estimate of the amounts payable based on forecast performance and expected leavers.

Notes to the financial statements (continued)

For the period ended 30 December 2021

3. Accounting policies (continued)

3.17 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of income and retained earnings, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the Balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance sheet date.

3.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from proceeds.

3.19 Exceptional items

Exceptional items are disclosed in these financial statements where it is necessary to do so to provide further understanding of the financial performance of the group. They are items that are material either because of their size or their nature, or that are non-recurring and as such are considered as exceptional items and are presented within line items on the statement of comprehensive income to which they best relate. No such costs arose in FY21.

Notes to the financial statements (continued)
For the period ended 30 December 2021

4. Judgments in applying accounting policies and key sources of estimation uncertainty

(a) Critical judgements in applying the Company's accounting policies

Exceptional items – management has made judgements and classified some costs as exceptional, where they are deemed to be non-recurring and incurred primarily due to the COVID-19 pandemic. No such costs arose in FY21.

(b) Key accounting estimates and assumptions

In the view of management and the directors, there are no key accounting estimates and assumptions in applying the Company's accounting policies.

5. Turnover

Turnover relates to the Company's main activity which is primarily carried out in the United Kingdom.

6. Operating profit

The operating profit is stated after charging:

	2021	2020
	£000	£000
Depreciation of owned tangible assets	50	47
Cost of inventories recognised as an expense	15,994	11,743
Operating lease charges	152	40
Exceptional items	-	1,553
Fees payable to the Company's auditors for the audit of the Company's financial statements	50	46
Non-audit service - tax compliance	5	-
	=====	=====

Exceptional items in FY20 are relating to £1.55m write off of balance owed from fellow Group company itsu Limited post-CVA.

Notes to the financial statements (continued)
For the period ended 30 December 2021

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2021	2020
	£000	£000
Wages and salaries	2,570	2,037
Social security costs	237	186
Other pension costs	75	61
	2,882	2,284

The average monthly number of employees, including the directors, during the period was as follows:

	2021	2020
	Number	Number
Selling and distribution	18	15
Management	27	23
	45	38

Included in accruals is £14,208 for pension payments (FY20: £12,275).

8. Directors' remuneration

	2021	2020
	£000	£000
Directors' emoluments	172	145
Pension contributions	5	4
	177	149

Only 1 (FY20: 2) director received pension contributions (into a plan held by itsu [grocery] ltd) and remuneration from the Company, as the other 3 (FY20: 3) are remunerated by the parent entity and recharges to the Company are immaterial.

Highest paid director

The highest paid director received emoluments amounting to £172,402 (FY20: £144,460) and pension contributions amounting to £4,850 (FY20: £4,400) in the period.

Notes to the financial statements (continued)
For the period ended 30 December 2021

9. Interest payable and similar expenses

	2021	2020
	£000	£000
Interest payable on intercompany loans	37	33

10. Tax on profit

	2021	2020
	£000	£000
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	(4)	(68)
Changes to tax rates	(5)	(10)
Adjustments in respect of previous periods	-	-
Total deferred tax	(9)	(78)
Total tax charge/(credit) for the period	(9)	(78)

Notes to the financial statements (continued)
For the period ended 30 December 2021

10. Tax on profit (continued)

Factors affecting tax charge/(credit) for the period

The tax assessed for the period is lower than (FY20 - lower than) the standard rate of corporation tax in the UK of 19% (FY20: 19%). The differences are explained below:

	2021	2020
	£000	£000
Profit before taxation	2,061	1,299
	<hr/>	<hr/>
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (FY20: 19%)	404	247
Effects of:		
Expenses not deductible for tax purposes	-	295
Adjustments in respect of previous periods	-	-
Changes to tax rates	(5)	(10)
Effects of group relief	(408)	(610)
	<hr/>	<hr/>
Total tax charge/(credit) for the period	(9)	(78)
	<hr/>	<hr/>

Factors that may affect future tax charges

The Finance Bill 2021 set the main rate of corporation tax at 19% for the financial year 2022, increasing to 25% for the financial year 2023. The recognized deferred tax assets and liabilities reflect these rates.

Notes to the financial statements (continued)
For the period ended 30 December 2021

11. Tangible assets

	Land and buildings leasehold £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Total £000
Cost or valuation				
At 31 December 2020	71	144	142	357
Additions	-	52	17	69
At 30 December 2021	<u>71</u>	<u>196</u>	<u>159</u>	<u>426</u>
Accumulated depreciation				
At 31 December 2020	71	101	111	283
Charge for the period	-	29	21	50
At 30 December 2021	<u>71</u>	<u>130</u>	<u>132</u>	<u>333</u>
Net book value				
At 30 December 2021	<u>-</u>	<u>66</u>	<u>27</u>	<u>93</u>
At 31 December 2020	<u>-</u>	<u>43</u>	<u>31</u>	<u>74</u>

12. Inventories

	2021 £000	2020 £000
Finished goods and goods for resale	<u>3,883</u>	<u>2,916</u>

Inventories are stated after a provision of £74,937 (FY20: £159,794).

Notes to the financial statements (continued)
For the period ended 30 December 2021

13. Debtors

	2021	2020
	£000	£000
Trade debtors	5,370	2,940
Deferred tax asset (note 17)	171	162
Taxation and social security	331	205
Prepayments and accrued income	268	250
	<u>6,140</u>	<u>3,557</u>

14. Cash at bank and in hand

	2021	2020
	£000	£000
Cash at bank and in hand	<u>3,101</u>	<u>1,877</u>

The Company has a loan from itsu Limited of £1,300k (FY20: £1,300k) as disclosed in note 15 and as a result the Company's net cash position is £1,801k (FY20: net cash £577k).

15. Creditors: amounts falling due within one year

	2021	2020
	£000	£000
Trade creditors	2,172	1,542
Amounts owed to group undertakings	1,300	1,300
Other taxation and social security	97	69
Derivative financial instrument	100	42
Accruals and deferred income	4,097	1,300
	<u>7,766</u>	<u>4,253</u>

Derivative balances are foreign exchange forward contracts. These are marked-to-market at each Balance sheet date.

Amounts owed to group undertakings are a loan from itsu Limited which is subject to interest at the same rate as the Group's HSBC loan agreement and is repayable on demand.

Notes to the financial statements (continued)

For the period ended 30 December 2021

16. Creditors: amounts falling due after more than one year

	2021 £000	2020 £000
Accruals and deferred income	-	790

17. Deferred tax

	2021 £000	2020 £000
At beginning of period	162	84
Adjustment in respect of previous periods	-	-
Credited to the Statement of income and retained earnings	9	78
At end of period	171	162

The deferred taxation asset is made up as follows:

	2021 £000	2020 £000
Fixed asset timing differences	18	10
Short term timing differences - trading	153	152
	171	162

The net deferred tax asset primarily relates to short term timing differences.

18. Called up share capital

	2021 £000	2020 £000
Authorised		
1,000,000 (FY20: 1,000,000) Ordinary shares of 0.100p each	1	1
Allotted and fully paid		
200,000 (FY20: 200,000) Ordinary shares of 0.100p each	-	-

Notes to the financial statements (continued)
For the period ended 30 December 2021

19. Commitments under operating leases

At the reporting end date the Company has no outstanding commitments for future minimum lease payments under non-cancellable operating leases.

20. Related party transactions

The Company is exempt under the terms of Financial Reporting Standard 102 (FRS 102) paragraph 33.1, from disclosing related party transactions with other group companies, on the grounds that 100% of the voting rights in the Company are controlled within the group and the Company is included in consolidated financial statements prepared by the group.

	30 December 2021 £000	31 December 2020 £000
Related party transactions outside the group	-	27
	<hr/>	<hr/>
	-	27

Related party transactions in FY20 related to consultancy work undertaken by a Director (Ms C Trendell), the cost of which was found within administrative expenses on the Statement of income and retained earnings. The Balance sheet impact of these transactions was nil.

21. Immediate and ultimate controlling party

The company is 100% owned by Butterfly 21 Bidco Limited, who have a registered office at Second Floor, 40 Broadway House, London, SW1H 0BT. The ultimate parent is Butterfly 21 Topco Limited, a company registered at Second Floor, 40 Broadway House, London, SW1H 0BT.

The smallest and largest group in which the results of the company are consolidated is that headed by Butterfly 21 Topco Limited.