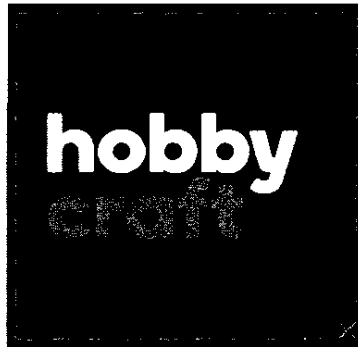


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HOBBYCRAFT GROUP LIMITED

Annual Report

For the 52 weeks ended 16 February 2020

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Hobbycraft Group Limited

Annual Report for the 52 weeks ended 16 February 2020

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Hobbycraft Group Limited

Directors and Advisors

Directors	Matt Davies Dominic Jordan Russell Harrison Guy Weldon Emma Watford Lawrence Christensen
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 Group Limited

Chairman's Statement for the 52 weeks ended 16 February 2020

The past year has seen continued growth by the Group with strong performance in our like-for-like (LFL) estate coupled with further store expansion, as we continue to execute our strategic initiatives.

The online growth continues to be particularly encouraging, with E-commerce sales growing 19.0%, supported by further improvements in the online functionality and integration of the Hobbycraft blog into the transactional website to help inspire our customers and drive conversion. Whilst the E-commerce growth helps the online channel to become a bigger mix of the total business this is not at the detriment of our store estate, with store LFL sales increasing by 4.7%.

This multi-channel growth is coupled with tight management of our gross profit margins and a persistent focus on driving efficiencies and cost savings, the combination of which has underpinned the 21.9% increase in Adjusted EBITDA to £14.8m, with Adjusted EBITDA margin improving from 6.8% to 7.7%.

None of this would have been possible without Hobbycraft's incredible colleagues. I would like to say a big thank you to all of our colleagues for the amazing passion and commitment that they bring to the business and serving our customers. It was great to see that Hobbycraft's strong colleague engagement was recognised this year by the Sunday Times Best Companies awards which further highlights the fantastic work environment that our colleagues create.

In light of COVID-19, this coming year will be particularly challenging. However, I am proud of how the business has successfully navigated through the March-June lockdown, working closely with suppliers to manage liquidity and working capital. We have continued to meet the needs of our customers through our online business, whilst keeping our colleagues' wellbeing at the heart of all decision-making. I therefore have every confidence that our strong brand, great products, amazing colleagues and robust liquidity position leave us well placed to withstand the longer term implications and emerge in a strong position to continue achieving our growth objectives.



Matt Davies
Chairman

Hobbycraft Group Limited

Strategic Report for the 52 weeks ended 16 February 2020

The directors present their Strategic Report together with the audited consolidated financial statements for the 52 weeks ended 16 February 2020.

Principal activities

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

Principal risks and uncertainties

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

The Group has developed a framework for identifying the risks that it is exposed to and their impact on the Group'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.

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

Risk	Description of risk	Mitigation
Prolonged impact due to COVID-19	<p>An enforced closure of the distribution centre (DC) and/or the support office, along with a further enforced closure of stores, would impact on business operations and our ability to generate revenue.</p> <p>Prolonged impact of social distancing rules or weakened consumer confidence could cause a material decline in revenue. The implementation of social distancing measures also leads to increased costs.</p> <p>A continued global impact could cause supply chain disruption, with a potential impact upon both supplier operations and delivery lead times and costs.</p> <p>The virus could also impact upon the availability of the workforce both for suppliers globally and for Hobbycraft.</p>	<p>Social distancing guidelines are followed at all times to ensure operations across the DC, stores and support office can continue safely. All Health & Safety guidance is updated and communicated to colleagues.</p> <p>Additional equipment (including sanitisation stations and Perspex screens) is provided to protect customers and colleagues.</p> <p>Support office colleagues are all capable of working from home if necessary and a rota system is in place to limit office occupancy.</p> <p>There are additional management oversight and controls over cash and stock management to ensure sufficient liquidity is maintained. Rolling weekly cash forecasts are used to identify any liquidity challenges in advance and provide sufficient time for mitigating actions to be implemented.</p>

Hobbycraft Group Limited

Strategic Report (continued) for the 52 weeks ended 16 February 2020

Risk	Description of risk	Mitigation
Business continuity / disaster recovery	Failure to recover from a disaster in a controlled and managed way in order to limit the impact to business operations, financial loss and reputational damage.	<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 annually with the IMT.</p> <p>Operational back up plans are in place for key systems, managed by reputable third parties.</p>
Supply chain disruption	<p>Lack or loss of speed in the supply chain leading to availability issues and failure to meet customer demand.</p> <p>Loss of delivery could be due to several reasons, including: a supplier failing to deliver an order, goods received not being fit for purpose, a shipping cargo loss or a sustained delay of 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>Any 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>
Corporate Social Responsibility	An ethical or quality standards failure within the supply chain (including at supplier premises), leading to reputational damage.	<p>Internal policies are in place covering Anti-Bribery and Corruption, Tax Evasion and Modern Slavery.</p> <p>Colleagues complete annual compliance training in relation to key policies.</p> <p>There is an internal Sustainability Plan in use, along with policies for product selection and for monitoring ethical practices by suppliers (including supplier audits).</p> <p>A QA/QC manager is responsible for ensuring all products comply with Health & Safety (H&S) and Trading Standards legislation.</p>
Information security and data protection	<p>A data protection failure leading to prosecution, fines and reputational damage.</p> <p>Risk of unauthorised data usage or malicious cyber attack.</p> <p>Systems failure compromising security or fulfilment of online or store transactions.</p>	<p>Technical IT controls include a configured firewall, network patching and anti-virus software.</p> <p>Back-up 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.</p>

Hobbycraft Group Limited

Strategic Report (continued) for the 52 weeks ended 16 February 2020

Risk	Description of risk	Mitigation
Economic changes and cost inflation	<p>An economic downturn is likely to impact upon sales.</p> <p>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.</p> <p>Increased fuel and energy costs, impacting upon distribution or store and support centre operational costs.</p> <p>The economic impact of Brexit remains difficult to quantify, but there is a clear risk of increased cost, stock intake delays and an extra administrative burden.</p> <p>Variations in foreign exchange rates have an impact on margins, with US dollar and Euro purchases.</p>	<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 treasury policy is in place with clear guidelines for hedging foreign exchange risk on US dollar purchases 12 months in advance, whilst maintaining foreign currency balances at minimum levels.</p> <p>The developments in the Brexit process are continuously monitored by a cross-functional working group.</p>
Regulatory compliance	<p>Breaches of regulations or legal requirements, leading to significant fines and reputational damage.</p> <p>Changes in regulatory landscape adversely affecting our financial condition and operations.</p> <p>Failure to effectively manage product quality and safety.</p> <p>Failure to adhere to tax legislation.</p> <p>Risk of fraud or errors in financial reporting.</p>	<p>Oversight is provided by an established Governance and Compliance Steering committee, which continuously monitors legal and regulatory developments and implements changes to processes or policies as necessary.</p> <p>Health & 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 senior management from all functions (Stores, DC and support centres) to ensure 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 colleagues.</p> <p>Expert third party advice is sought with respect to any significant tax matters. A policy and training are in place 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 published annually to set out compliance with legal requirements.</p> <p>A Data Protection Officer and a Loss Prevention Manager are in post. Appropriate segregation of duties is ensured, along with key controls where there is any significant risk of fraud or error.</p> <p>A GDPR project plan has been delivered and continuous monitoring and reviews are ongoing.</p>

Hobbycraft Group Limited

Strategic Report (continued) for the 52 weeks ended 16 February 2020

Risk	Description of risk	Mitigation
Limited warehouse capacity	Lack of warehouse capacity has the potential to limit future growth in the E-commerce 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 three years, comfortably accommodating stock for the 99 stores as at 16 February 2020 and proposed c. 15 new stores over the next three years.</p> <p>Annual investment in the DC has been made to increase the capacity of E-commerce operations.</p> <p>A strategy is in place to reduce the overall stockholding, including improving stock turn and reducing aged stock.</p> <p>Reviews of future capacity are completed every 6 months to forecast when limits will be reached and to plan remedial actions.</p> <p>Investment is included in the budget to drive efficiency and the better use of space for E-commerce operations.</p>
Multichannel strategy	<p>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>Failure to meet customer expectations across all channels undermining our multichannel proposition.</p> <p>Lack of cohesion between channels compromising the consistency of customer experience.</p> <p>Increasing sales mix of the E-commerce channel leading to a lower overall gross margin.</p>	<p>There is a strategy to continue to grow the E-commerce business. Investment has been included in the business plans to improve the online customer proposition and to support future growth.</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>

Hobbycraft Group Limited

Strategic Report (continued) for the 52 weeks ended 16 February 2020

Risk	Description of risk	Mitigation
Talent management	<p>Shortage of (or a failure to recruit) top talent to run our day-to-day operations</p> <p>Failure 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 and certain individuals are contractually restricted from joining competitors.</p> <p>Succession planning for key positions is reviewed on a periodic basis.</p> <p>Labour turnover is reviewed on a monthly basis 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>
Working capital management	<p>The 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.</p>	<p>A formal treasury policy is in place.</p> <p>There is a rigorous budget-setting process with regular detailed reviews of actual performance against targets.</p> <p>A suitable Revolving Cash Facility is available and is reviewed regularly.</p> <p>A 3-year business plan is updated annually.</p> <p>A rolling weekly cash flow forecast covers the medium term (3 months).</p> <p>There is a well-defined stock management process – outlined below.</p> <p>There is a continuous focus on stock management to keep stock as low as possible without jeopardising availability and sales.</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 on trading performance and loss of market share.</p>	<p>An experienced buying team is in place, supported with training and development.</p> <p>There is a clearly defined buying process with appropriate review and approval controls to cover new products, replenishment of existing lines and management of exiting existing lines from the business.</p> <p>There are weekly reviews of stock forecasts against budget and Open To Buy (OTB) is 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 a number of KPIs.</p>

Hobbycraft Group Limited

Strategic Report (continued) for the 52 weeks ended 16 February 2020

Business environment

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

Strategy

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

Furthermore, over the last few years we have worked 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 margin and drive efficient use of working capital, as we continue to look to tighten our stock holding and reduce aged stock.

The Group is also focused on multi-channel growth as we seek to better serve our customers' needs. The Group employs a robust selection process with regards to the opening of new stores and will continue to open new smaller format stores in relevant locations across the United Kingdom (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, improving our online experience and offering.

Alongside the growth in our Click and Collect proposition we also continue to drive footfall to stores through an increase in in-store demos and workshops which provide inspiration to customers in the local community and allow our colleagues to demonstrate their incredible knowledge and passion for crafting, together with great service.

Our multi-channel aspirations are supported by our growing social media community and the Hobbycraft Club which has over 4.5 million loyal members. Our use of targeted digital marketing, Facebook live and YouTube demos, both Hobbycraft content and user-generated content across all social media channels, and our 'Ideas' blog (which is now integrated into our transactional website) all support our sector-leading social media profile, which helps to drive engagement with new and existing customers.

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 is evidenced by Hobbycraft finishing 5th in the Sunday Times Best Companies Survey 2020.

Review of the business

The financial statements for the period ended 16 February 2020 (FY20) are set out from page 21.

The results for FY20 show another strong period of growth with an improvement in sales and underlying profitability despite the challenging UK retail environment. Revenue increased by £15.9m (+8.9%) to £193.6m driven by the increase in the number of stores, strong underlying store LFL growth and E-commerce growth of £3.9m or +19.0%. The expansion of our store footprint included the opening of new stores in Newbury, Worcester, Luton, Stratford-upon-Avon and Newtownabbey (our first store in Northern Ireland). This takes the total store network to 99 at the end of the year with our 100th store due to open next financial year.

Hobbycraft Group Limited

Strategic Report (continued) for the 52 weeks ended 16 February 2020

Our Trading Gross Margin¹ rate declined to 55.6% from 55.8% in the prior period due to the impact of the devaluation in Sterling, the increased mix of lower margin rate products and increased E-commerce participation which inherently has a lower gross margin due to the variation in product mix of online baskets. However, these impacts were largely offset by a continued focus on product improvement, planned promotional campaigns and effective stock management.

Our focus on cost control and driving operational efficiency, combined with the strong multi-channel growth, resulted in Adjusted EBITDA² of £14.8m, an increase of £2.7m (+21.9%) on the prior period. Adjusted EBITDA, a non-GAAP measure, is calculated as follows:

	Note	2020 £'000	2019 £'000
Operating profit		1,939	1,509
Add back/(deduct):			
One-off operating expenses	3	285	507
Fair value movement of derivative financial instruments	3	482	(1,178)
Share based payment charge	20	1,204	203
Shareholder monitoring fees	25	150	150
Depreciation	10	5,409	5,687
Amortisation	9	5,358	5,285
Adjusted EBITDA		14,827	12,163

Net cash generated from operating activities continued to be strong at £12.5m and increased by £3.9m or 45.6% on the prior period driven by the improvement in underlying profitability and an improvement in working capital. The movement in working capital reflects our continued focus to manage stock tightly following the planned investment into certain product categories in the prior year to improve availability, which supported sales growth in the current year. The Group cash position closed at £34.6m, an increase of £7.2m on the prior year, driven by the improvement in cash generated from operations outlined above offset by an increase in capital investment.

Customer satisfaction (measured by the Net Promoter Score⁴) and Colleague engagement⁵ also both improved in the period to 86.0% and 92% respectively.

¹ Trading Gross Margin excludes the movements in fair value of financial instruments as management consider that this represents the underlying margin performance of the Group, excluding the impact of the marking to market of outstanding forward contracts since these gains/losses are not realised at the balance sheet date.

² Management consider that Adjusted EBITDA reflects the trading performance of the Group, excluding the impact of capital investment. Adjusted 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 income statement charge or credit in relation to the onerous lease provision, shareholder monitoring fees, depreciation and amortisation.

³ 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.

⁴ 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%.

⁵ Colleague engagement is measured via an anonymous survey sent to all colleagues once per year.

Hobbycraft Group Limited

Strategic Report (continued) for the 52 weeks ended 16 February 2020

Key performance indicators ('KPIs')

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

	2020	2019
Retail sales	£193.6m	£177.7m
Trading Gross Margin %	55.6%	55.8%
Adjusted EBITDA	£14.8m	£12.2m
Total LFL growth (including E-commerce)	6.4%	2.0%
Average net stock per store (excluding Distribution Centre)	£205.6k	£190.4k
Net cash generated from operating activities	£12.4m	£8.6m
Cash at bank and in hand	£34.6m	£27.3m
Customer satisfaction (Net Promoter Score)	86.0%	85.9%
Colleague engagement	92.0%	90.0%

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 Group, 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.

We continue to make progress against our internal Sustainability Commitment that we launched last year with particular highlights in FY20 being:

- Backhauling all store waste to our distribution centre for recycling, with 1,768 tonnes of distribution centre materials recycled in FY20 (2019: 1,358 tonnes)
- Introducing new recycling facilities at our support centres and taking steps to significantly reduce printing across the business
- Recycling information now provided on all own brand packaging
- Changes to our E-commerce packaging to reduce overall packaging usage, to remove unnecessary void fill and to more strongly highlight the recyclability logo
- Continued fundraising for our charity partner, Together for Short Lives, with over £1m raised since the start of our partnership together

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

Hobbycraft Group Limited

Strategic Report (continued) for the 52 weeks ended 16 February 2020

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 directors consider that the following are the Group's key stakeholders:

- **Colleagues** (see below): 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 12): 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 8). 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 12): serving local communities is at the heart of Hobbycraft's ethos, whether through catering for local crafting needs or through our charity partnerships, whilst we seek to minimise any adverse impact upon the environment from our operations.
- **Suppliers** (see page 12): 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 12): 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** (see page 12): we have a collaborative relationship with our shareholders and welcome the advice and experience that the majority shareholder brings to our 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 8, with future developments also discussed on page 13.

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 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 10.

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.

Hobbycraft Group Limited

Strategic Report (continued) for the 52 weeks ended 16 February 2020

Executive directors attend key trading meetings throughout the year as well as regular meetings with colleagues, including listening groups conducted by the CEO. These inclusive principles are evidenced by Hobbycraft's placing of 5th in the Sunday Times Best Companies Survey 2020.

Board meetings are attended by the People Director to ensure that the Board is kept abreast of employee-related matters, including demographics, engagement activities, the results of surveys, labour turnover rates, diversity and gender equality, learning and development activity, and pay and reward matters. The latter is also discussed in formal remuneration committee meetings.

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 the Retail Trust, a charity that provides practical and emotional support. The Group also operates flexible working arrangements, which all colleagues are invited to apply for.

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 8 for further information. Customer satisfaction is a core KPI, as reported on page 10.

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 3 to 7.

The CFO is responsible for managing the relationships with our bank, insurance provider and credit rating agencies, and for the Group'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 Group'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 10 for information on our environmental, social and corporate governance (ESG) initiatives, including ongoing fundraising for our charity partner, Together for Short Lives.

Acting fairly between Company members

Ownership of the Company is divided between "A" and "B" ordinary shares. Each of these shares carries a single right to vote and entitles the holder to attend general meetings and to receive dividends, with no class of shares preferred to the other. As such, all shareholders benefit from the same rights, as set out in the Company's articles of association and the Companies Act 2006. This structure is reflective of the Board's key principle of treating all Company members fairly.

Hobbycraft Group Limited

Strategic Report (continued) for the 52 weeks ended 16 February 2020

Future developments

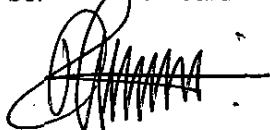
We continue to execute our strategy with improvements in product ranges supporting multi-channel growth. Our broad range of products continues to evolve with more specialist materials and newness ensuring that we satisfy the needs of craft enthusiasts and stay ahead of the competition.

Our resolute focus on the strategy will see us bring further product innovation and inspiration with an increase in store workshops and demonstrations, new stores and further investment in our E-commerce platform to support future growth.

As ever, these plans are underpinned by a focus on great customer service and colleague engagement. We seek to provide inspiration to customers in the local communities we serve and allow our colleagues to demonstrate their incredible knowledge and passion for crafting.

Clearly the impact of COVID-19 presents new challenges and will undoubtedly change the shape of the UK retail sector. However, the business has emerged from the March-June lockdown in a strong position – the financial impact of COVID-19 is discussed in the post balance sheet event section of the Directors' report (refer to page 17). Having maintained focus on fulfilling our customers' needs and protecting our colleagues throughout the disruption, we are now well placed to withstand the longer-term impacts of the pandemic and drive further growth.

On behalf of the Board



Dominic Jordan

29 July 2020

Hobbycraft Group Limited

Directors' Report for the 52 weeks ended 16 February 2020

The directors present their report and the audited consolidated financial statements for the 52 weeks ended 16 February 2020. The comparative period was the 52 weeks ended 17 February 2019. A review of the business and future developments is set out in the Strategic Report on pages 3 to 13.

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 Group. 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 Group's operations expose it to a variety of financial risks which the directors believe are notably the effects of liquidity risk and foreign currency risk. The directors do not consider interest rate risk to be significant given that the interest rate on the investor loan notes is fixed until 3 May 2023 and 99.46% of the loan notes in issue at 16 February 2020 were held by the majority shareholders (2019: 99.46%). The directors have evaluated price and credit risk and consider that these are not significant to the Group.

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 Group 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 Group 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 Group had a net cash position of £34.6m at period end and also had access to a £6.0m revolving credit facility, including a £2.5m overdraft facility which was not utilised during the financial year. There was a covenant attached to the banking facility requiring a minimum EBITDA of £6.5m for each rolling 12 month period. The covenant was tested quarterly and there were no breaches during the financial year.

The revolving credit facility expired on 30 April 2020 and it has been replaced with a new £3.5m working capital facility with an expiry date of 31 January 2021. The new facility provides a £1.0m duty deferment guarantee and £2.5m of credit relating to forward foreign exchange contracts. The covenant attached to the revolving credit facility was also amended to a minimum cash requirement of £5.0m which is tested monthly at period end and on a rolling 13-week forecast.

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 COVID-19, Brexit, National Minimum/Living Wage legislation and cost inflation will have an impact on consumer spending in the short/medium term but the full impact is unknown. Detailed financial modelling has been performed with respect to the immediate and longer-term impacts of COVID-19 – refer to the post balance sheet event outlined on page 17.

Hobbycraft Group Limited

Directors' Report (continued) for the 52 weeks ended 16 February 2020

Corporate Governance

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

The Group has a policy of communicating openly with colleagues and provides information about the Group'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 Group. These meetings also allow colleagues to share their views on matters affecting their interests. In addition, the Group continues to operate a share scheme for senior managers to encourage the involvement of these colleagues in the Group'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 and the services of existing colleagues who become disabled are retained whenever practicable.

Supplier payment policy

The Group's policy concerning the payment of its trade creditors is, unless otherwise agreed at the time of the contract, payment of invoices 60 days (2019: 60 days) after the month of invoice.

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

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

Dividends

There were no dividends paid or proposed during the period ended 16 February 2020 (2019: nil).

Political donations

The Group made no political donations during the period ended 16 February 2020 (2019: nil).

Directors

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

Matt Davies	Non-executive Chairman
Dominic Jordan	CEO
Russell Harrison	CFO (appointed 15 April 2019)
Guy Weldon	Investor Nominee
Emma Watford	Investor Nominee
Lawrence Christensen	Non-executive

The Investor Nominees are proposed and appointed on behalf of the ultimate controlling party, Bridgepoint Europe Portfolio IV LP (note 26).

Hobbycraft Group Limited

Directors' Report (continued) for the 52 weeks ended 16 February 2020

Qualifying third party indemnity provisions

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

Audit committee

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

Disclosure of information to auditors

Each director of the Group 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 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 they have elected to prepare the Group and parent company 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 Group and parent company and of the Group's profit or loss for that period. In preparing each of the Group and parent company 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 Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis unless they either intend to liquidate the Group or the parent 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 Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent 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 Group and parent company and to prevent and detect fraud and other irregularities.

Hobbycraft Group Limited

Directors' Report (continued) for the 52 weeks ended 16 February 2020

Post balance sheet event: COVID-19 pandemic

As a result of the COVID-19 pandemic, the Group closed all its stores on 23 March 2020. The 90 stores in England and Northern Ireland reopened on 15 June 2020 and the remaining 10 stores across Scotland and Wales were all reopened by 29 June 2020. Despite mitigating actions and a substantial upturn in E-commerce sales during the March-June lockdown period, it is expected that the period of store closure, along with any lasting impacts of the pandemic on consumer sentiment, will result in a material reduction in revenue for the financial year ending 21 February 2021. As a result, the Group is likely to report a significant decline in Adjusted EBITDA for the period with the clear possibility that it will be loss-making.

During the period of disruption, the business worked with suppliers and other key stakeholders to carefully manage stock commitments and liquidity. Other actions included:

- Utilising the Government's Coronavirus Job Retention Scheme, which is expected to provide a benefit of c. £3.9m-£4.4m for the period from March to August 2020.
- Benefiting from the Government's business rates relief, which will provide a benefit of c. £8.6m for the financial year ending 21 February 2021, along with the deferral of VAT payments relating to the March-June VAT quarter.
- The covenant attached to the new £3.5m working capital facility was set to a reduced minimum cash requirement of £5.0m.

Impairment of goodwill and property, plant and equipment was initially assessed using growth assumptions from the FY21 budget and the 3-year business plan. As a result of the impacts of COVID-19, these assumptions, specifically for FY21, are no longer appropriate. Revised financial modelling has therefore been prepared using the assumption of a prolonged downturn in performance arising from a sustained economic downturn and weakened consumer confidence. Despite significant levels of prudence used in the modelling, no impairment is shown to be necessary.

Going concern

The Group reported an operating profit of £1.9m (2019: £1.5m) and an operating cash inflow of £12.4m (2019: £8.6m). Notwithstanding the Group net liabilities of £45.0m (2019: £35.9m) as at 16 February 2020, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the reasons outlined below.

The Group's business activities, together with the principal risks that may affect its future development, performance and position are set out in the Strategic Report on pages 3 to 13 which, together with the Directors' report, describes the Group's financial position, cash flows and borrowing facilities. Further information on these areas is detailed in the financial statements which are set out from page 21.

In light of COVID-19, the directors have reviewed the current financial performance and the liquidity of the business, and assessed its resilience to a reduction in sales through a series of stress tests.

Since the year-end, the Group's stores were closed to trade for the three-month period of lockdown from March to June (as described further in the post balance sheet event section above). In spite of this, the directors have actively managed the cost base and working capital of the Group.

As part of the financial modelling, the directors have reviewed projected cash flows up to the end of February 2022 and modelled a sustained decline in revenue on the assumption that store sales never fully recover to pre-COVID-19 levels. The directors have modelled the assumption that store sales will be -10% lower than originally planned (c. -8% below FY20) throughout peak trade in 2020 and up to the end of February 2022.

Hobbycraft Group Limited

Directors' Report (continued) for the 52 weeks ended 16 February 2020

This analysis has then been stress-tested further by considering a further period of lockdown over peak trade in 2020, in addition to the assumption that the current working capital facility (as described on page 14) is not renewed upon expiry in January 2021. The modelling shows that the covenant attached to the working capital facility continues to be met up until its assumed expiry in January 2021, whilst there are no covenants attached to the existing loan notes. There are no scheduled repayments of the loan notes during this period as the expiry of the debt is not until 3 May 2023.

As part of the assessment, management have considered the cost saving and cash preservation initiatives that would be available to the Group, in line with the actions taken during the March to June lockdown period (as described on page 17), without assuming there will be further support from government funding.

The directors report that, having reviewed current performance and forecasts, they have a reasonable expectation that the Group has adequate resources to continue its operations, service its working capital needs and meet its debts as they fall due for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the financial statements.



Russell Harrison

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Bournemouth International Airport
Hurn, Christchurch
Dorset
BH23 6HG

29 July 2020

Hobbycraft Group Limited

Independent Auditor's Report to the members of Hobbycraft Group Limited

Opinion

We have audited the financial statements of Hobbycraft Group Limited ("the Company") for the year ended 16 February 2020 which comprise the Group and Parent Company Balance Sheets, the Group Profit and Loss Account, the Group and Parent Company's Statement of Changes in Equity, the Group Cash Flow Statement, 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 Group's and of the Parent Company's affairs as at 16 February 2020 and of the Group's loss 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 Group 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 Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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

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

Strategic report and directors' report

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

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.

Hobbycraft Group Limited

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

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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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

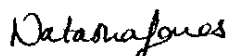
As explained more fully in their statement set out on page 16, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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



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

29 July 2020

Hobbycraft Group Limited

Group Profit and Loss Account for the 52 weeks ended 16 February 2020

		2020	One-off items and fair value gain/(loss) on financial instruments	2020	2019	One-off items and fair value gain/(loss) on financial instruments	2019
	Note	£'000	£'000	£'000	£'000	£'000	£'000
		Trading results		Total	Trading results		Total
Revenue	2	193,560	-	193,560	177,693	-	177,693
Cost of sales	3	(86,013)	(482)	(86,495)	(78,606)	1,178	(77,428)
Gross profit		107,547	(482)	107,065	99,087	1,178	100,265
Operating expenses (before depreciation, amortisation, share based payments and monitoring fees)	3	(92,720)	(285)	(93,005)	(86,924)	(507)	(87,431)
Adjusted EBITDA		14,827	(767)	14,060	12,163	671	12,834
Depreciation and amortisation	3	(10,767)	-	(10,767)	(10,972)	-	(10,972)
Share based payments	20	(1,204)	-	(1,204)	(203)	-	(203)
Monitoring fees	25	(150)	-	(150)	(150)	-	(150)
Operating profit		2,706	(767)	1,939	838	671	1,509
Finance income	6	159	-	159	85	-	85
Finance costs	7	(10,060)	-	(10,060)	(9,375)	-	(9,375)
Loss before taxation		(7,195)	(767)	(7,962)	(8,452)	671	(7,781)
Tax on loss	8	(1,157)	-	(1,157)	(1,398)	-	(1,398)
Loss for the financial year		(8,352)	(767)	(9,119)	(9,850)	671	(9,179)

All amounts relate to continuing activities. The notes on pages 27 to 53 form part of these financial statements.

Hobbycraft Group Limited
Group Balance Sheet as at 16 February 2020

Registered number: 07216034

		16 February 2020 £'000	17 February 2019 £'000
	Note		
Fixed assets			
Intangible assets	9	50,350	54,544
Tangible assets	10	24,081	25,095
		74,431	79,639
Current assets			
Inventories	12	33,960	32,023
Debtors (including £856k (2019: £644k) due after more than one year)	13	7,765	6,780
Cash and cash equivalents		34,578	27,342
		76,303	66,145
Creditors: amounts falling due within one year	14	(34,752)	(31,317)
Net current assets		41,551	34,828
Total assets less current liabilities		115,982	114,467
Creditors: amounts falling due after more than one year	15	(160,908)	(150,281)
Provisions for liabilities	17	(40)	(40)
Net liabilities		(44,966)	(35,854)
Capital and reserves			
Called up share capital	21	259	259
Share premium account		5,386	5,386
Treasury shares	20	(411)	(411)
ESOT reserve	20	318	311
Capital contribution		72,790	72,790
Profit and loss account		(123,308)	(114,189)
Total shareholders' deficit		(44,966)	(35,854)

The financial statements and the notes on pages 27 to 53 were approved by the Board of Directors, authorised for issue on **29** July 2020 and signed on its behalf by:



Russell Harrison

Hobbycraft Group Limited

Company Balance Sheet as at 16 February 2020

Registered number: 07216034

		16 February 2020 £'000	17 February 2019 £'000
	Note		
Fixed assets			
Investments	11	5,652	4,636
		5,652	4,636
Current assets			
Debtors (including £822k (2019: £1,817k) due after more than one year)	13	824	1,817
Cash and cash equivalents		245	-
		1,069	1,817
Creditors: amounts falling due within one year	14	(122)	(736)
Net current assets		947	1,081
Total assets less current liabilities		6,599	5,717
Creditors: amounts falling due after more than one year	15	(1,801)	(731)
Net assets		4,798	4,986
Capital and reserves			
Called up share capital	21	259	259
Share premium account		5,386	5,386
Treasury shares	20	(411)	(411)
ESOT reserve	20	318	311
Profit and loss account		(754)	(559)
Total shareholders' funds		4,798	4,986

The net loss made by the Company during the period was £195k (2019: loss £482k).

The financial statements and the notes on pages 27 to 53 were approved by the Board of Directors, authorised for issue on 29 July 2020 and signed on its behalf by:



Russell Harrison

Hobbycraft Group Limited

Group and Company Statements of Changes in Equity for the 52 weeks ended 16 February 2020

Group	Called up share capital	Share premium account	Treasury shares	ESOT reserve	Share based payments	Capital contribution reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 18 February 2018	259	5,386	(411)	-	35	72,790	(105,010)	(26,951)
Share based payment credit	-	-	-	-	(35)	-	-	(35)
Gain on allocation of shares	-	-	-	311	-	-	-	311
Loss for the financial year	-	-	-	-	-	-	(9,179)	(9,179)
At 17 February 2019	259	5,386	(411)	311	-	72,790	(114,189)	(35,854)
Gain on allocation of shares	-	-	-	7	-	-	-	7
Loss for the financial year	-	-	-	-	-	-	(9,119)	(9,119)
At 16 February 2020	259	5,386	(411)	318	-	72,790	(123,308)	(44,966)

Company	Called up share capital	Share premium account	Treasury shares	ESOT reserve	Share based payments	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 18 February 2018	259	5,386	(411)	-	35	(77)	5,192
Share based payment credit	-	-	-	-	(35)	-	(35)
Gain on allocation of shares	-	-	-	311	-	-	311
Loss for the financial year	-	-	-	-	-	(482)	(482)
At 17 February 2019	259	5,386	(411)	311	-	(559)	4,986
Gain on allocation of shares	-	-	-	7	-	-	7
Loss for the financial year	-	-	-	-	-	(195)	(195)
At 16 February 2020	259	5,386	(411)	318	-	(754)	4,798

Hobbycraft Group Limited

Group Cash Flow Statement for the 52 weeks ended 16 February 2020

		2020	2019
	Note	£'000	£'000
Cash flow from operating activities			
Loss for the financial year		(9,119)	(9,179)
Adjustments for:			
Exchange loss/(gain) on cash and cash equivalents		47	(344)
Share based payment expense	20	1,204	203
Depreciation and amortisation	3	10,767	10,972
Loss on disposal of non-current assets	3	11	71
Finance income	6	(159)	(85)
Finance costs	7	10,060	9,375
Fair value loss/(gain) on financial instruments		482	(1,178)
Taxation expense	8	1,157	1,398
Increase in inventories	12	(1,937)	(4,627)
Increase in trade and other receivables	13	(773)	(678)
Increase in trade and other payables	14, 15	1,925	2,574
Cash generated from operations		13,665	8,502
Corporation tax (paid)/received		(1,276)	68
Net cash generated from operating activities		12,389	8,570
Cash flows from investing activities			
Purchase of intangible assets	9	(1,146)	(333)
Purchase of tangible assets	10	(4,016)	(3,587)
Proceeds from disposal of tangible assets		-	-
Net cash used in investing activities		(5,162)	(3,920)
Cash flows from financing activities			
Finance costs paid	7	(103)	(75)
Interest received	6	159	85
Net cash from financing activities		56	10
Net increase in cash and cash equivalents		7,283	4,660
Cash and cash equivalents at beginning of the financial year		27,342	22,338
Exchange (loss)/gain on cash and cash equivalents		(47)	344
Cash and cash equivalents at end of the financial year		34,578	27,342
Cash and cash equivalents comprise:			
Cash at bank and in hand		34,578	27,342

The notes on pages 27 to 53 form part of these financial statements.

Hobbycraft Group Limited

Group Cash Flow Statement (continued) for the 52 weeks ended 16 February 2020

The table below provides an analysis of changes in net debt of the Group from the beginning to the end of the current reporting period:

	Borrowings due after more than one year £'000	Cash and cash equivalents £'000	Net debt £'000
Net debt analysis			
At 17 February 2019	(140,845)	27,342	(113,503)
Cash flows	-	7,283	7,283
Non-cash changes	(9,957)	-	(9,957)
Effect of movements in foreign exchange	-	(47)	(47)
At 16 February 2020	(150,802)	34,578	(116,224)

The borrowings due after more than one year are investor loans. The non-cash movements relating to investor loan notes represent interest accrued.

Hobbycraft Group Limited

Notes to the Financial Statements for the 52 weeks ended 16 February 2020

1 Accounting policies

Statement of compliance

Hobbycraft Group Limited is a private limited company incorporated, domiciled and registered in England. The registered number of the Company is 07216034 and the registered address is Hobbycraft Head Office, 7 Enterprise Way, Aviation Business Park, Christchurch, Dorset, BH23 6HG.

The Group's consolidated 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 Group for the 52 weeks ended 16 February 2020.

Basis of preparation

The Group financial statements have been prepared under the historical cost convention, except for derivative financial instruments that are recognised at fair value through the profit or loss.

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

Going concern

The Group reported an operating profit of £1.9m (2019: £1.5m) and an operating cash inflow of £12.4m (2019: £8.6m). Notwithstanding the Group net liabilities of £45.0m (2019: £35.9m) as at 16 February 2020, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the reasons outlined below.

The Group's business activities, together with the principal risks that may affect its future development, performance and position are set out in the Strategic Report on pages 3 to 13 which, together with the Directors' report, describes the Group's financial position, cash flows and borrowing facilities. Further information on these areas is detailed in the financial statements which are set out from page 21.

In light of COVID-19, the directors have reviewed the current financial performance and the liquidity of the business, and assessed its resilience to a reduction in sales through a series of stress tests. Since the year-end, the Group's stores were closed to trade for the three-month period of lockdown from March to June (as described further in the post balance sheet event section on page 17). In spite of this, the directors have actively managed the cost base and working capital of the Group.

As part of the financial modelling, the directors have reviewed projected cash flows up to the end of February 2022 and modelled a sustained decline in revenue on the assumption that store sales never fully recover to pre-COVID-19 levels. The directors have modelled the assumption that store sales will be -10% lower than originally planned (c. -8% below FY20) throughout peak trade in 2020 and up to the end of February 2022.

This analysis has then been stress-tested further by considering a further period of lockdown over peak trade in 2020, in addition to the assumption that the current working capital facility (as described on page 14) is not renewed upon expiry in January 2021. The modelling shows that the covenant attached to the working capital facility continues to be met up until its assumed expiry in January 2021, whilst there are no covenants attached to the existing loan notes. There are no scheduled repayments of the loan notes during this period as the expiry of the debt is not until 3 May 2023.

As part of the assessment, management have considered the cost saving and cash preservation initiatives that would be available to the Group, in line with the actions taken during the March to June lockdown period (as described on page 17), without assuming there will be further support from government funding.

The directors report that, having reviewed current performance and forecasts, they have a reasonable expectation that the Group has adequate resources to continue its operations, service its working capital needs and meet its debts as they fall due for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the financial statements.

Hobbycraft Group Limited

Notes to the Financial Statements for the 52 weeks ended 16 February 2020

Basis of consolidation

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

The Group financial statements have been prepared using the acquisition method of accounting and include all subsidiaries of the Company. Group accounting policies have been applied consistently across all Group companies. All profits and losses on intra-group transactions have been eliminated on producing the Group financial statements.

The Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 not to present a Profit and Loss Account. The Company has taken advantage of the exemption FRS 102 not to prepare a separate Company cash flow statement with related notes.

Critical accounting estimates, judgements and assumptions

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

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

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

(a) Inventory provisions

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

(b) Impairment of tangible and intangible assets and goodwill

The Group considers whether tangible and intangible assets and/or goodwill 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.

(c) Share based payments

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

Management are also required to exercise judgement in estimating the date of change of control of the Group and Company. The share based payment charge is recognised in each period as it is incurred, based on a fair value model. The key assumptions of this model for each scheme are presented in note 20.

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

Other estimates and assumptions include:

(a) 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.

(b) Debt restructuring

Critical judgements are required when the Group 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. There were no refinancing events requirement any judgement during the financial year ending 16 February 2020.

(c) Tax judgements

At each financial period end, judgement is required in determining the Group 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 Group 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 Group's current and deferred tax assets and liabilities in the period in which such determination is made, as presented in note 8.

Deferred tax assets and liabilities require judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised, taking into account the expected timing and level of future taxable profits of the Group. 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.

Revenue

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

The Group recognises revenue when the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the entity and when goods are delivered or collected 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 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.

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

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

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

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.

Exceptional items

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

Finance income and finance costs

The main components of finance income and costs are interest income on cash deposits and interest accruing on loan notes. The interest accruing on loan notes is charged to profit and loss over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument and are amortised over the expected life of the debt.

Tangible assets and depreciation

Tangible assets are included at cost, less accumulated depreciation 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.

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 Group and the cost of the item can be measured reliably. Subsequent costs are depreciated over the asset's remaining useful economic life. The carrying amount of a replaced part is derecognised. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

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

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

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

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

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

Goodwill

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair value of the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired. In respect of acquisitions prior to 24 February 2014, goodwill is included on the basis of its deemed cost, which represents the amount recorded under old UK GAAP. Intangible assets previously included in goodwill, are not recognised separately.

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Goodwill arising on acquisition represents the value of the brand and customer base which has sufficient depth that management expect the benefit to accrue over 20 years in line with the expected life of the business, ongoing supplier relationships (up to 22 years), and the length of retail leases (15-20 years). Goodwill is amortised over 20 years and has no residual value. Goodwill is tested for impairment in accordance with Section 27 'Impairment of assets' when there is an indication that goodwill may be 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 Group intends, and has the technical ability and sufficient resources, to complete development, future economic benefits are probable and if the Group 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:

Computer software	3 years
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If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting period previous estimates will be reviewed and, if current expectations differ, the residual value, amortisation method or useful life will be amended. Changes in the expected useful life or the expected pattern of consumption of benefit will be accounted for as a change in accounting estimate. Intangible assets are tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that the intangible asset may be impaired.

Investments

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

Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. Cost includes direct costs incurred in bringing inventories to their current location and condition such as transport and handling costs, plus an attributable proportion of distribution overheads.

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

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 Group has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Leased assets

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

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

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

Taxation

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

Current taxation

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

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

Deferred tax

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

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

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse. Deferred tax assets and liabilities are not discounted.

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

Foreign currency translation

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

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

Financial instruments

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

Financial assets

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

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

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

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

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.

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

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

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

Cash and cash equivalents

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

Offsetting

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

Non-financial assets

The carrying amounts of the Group'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"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire group of entities into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss recognised for goodwill is not reversed. An impairment loss recognised for other assets is reversed only if the reasons for the impairment have ceased to apply.

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

Pension scheme arrangements

The Group operates defined contribution pension schemes for eligible employees and directors. The Group'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 Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

Share based payments

Share based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as an employment expense in profit or loss.

The Group operates two share based payment schemes: the Hobbycraft Share Offer Plan and the Executive Scheme. Each scheme is accounted for as a cash-settled share based payment scheme.

The fair value of these cash-settled 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 scheme. This aims to be indicative of future trends, but may not necessarily reflect the actual outcome. The expected life of the scheme is based on management's estimated date of a change of control of the Group and is not necessarily indicative of exercise patterns that may occur. As the awards are deemed to be cash-settled their fair value is reviewed on an annual basis with a corresponding liability being recognised.

Transactions with the Employee Benefit Trust (EBT)

The EBT was set up to allow the issue of shares to Group employees and is consolidated into the Group and Company's financial statements. Company shares owned by the EBT are recognised at weighted average cost as Treasury shares. The ESOT reserve represents the gain or loss made by the EBT on the transfer of shares to employees. Transactions of the Company-sponsored EBT are treated as being those of the Company and are therefore reflected in the Company and Group financial statements. In particular, the EBT's purchases and sales of shares in the Company are debited and credited directly to equity.

Adjusted EBITDA

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

The Board consider that Adjusted EBITDA reflects the trading performance of the Group, excluding the impact of capital investment. Adjusted 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 income statement charge or credit in relation to the onerous lease provision, shareholder monitoring fees, depreciation and amortisation.

2 Revenue

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

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

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

3 Operating loss

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

	2020	2019
	£'000	£'000
Distribution costs	40,026	37,227
Administrative expenses	52,694	50,050
	92,720	87,277

In addition to the operating expenses, there are the following one-off items:

	2020	2019
	£'000	£'000
Refinancing costs	285	-
People costs (including re-structuring costs)	-	507
Total non-recurring costs	285	507

The refinancing costs relate to a review of the working capital facilities of the Group, which was put on hold in March 2020. In the prior year, the non-recurring costs included statutory and enhanced payments arising from a restructure of senior management and the reversal of the un-utilised portion of a provision relating to an employee matter.

	2020	2019
	£'000	£'000
Loss before taxation is stated after charging/(crediting):		
Loss on disposal of tangible assets	11	71
Depreciation of tangible assets	5,409	5,687
Amortisation of intangible assets	5,358	5,285
Fees payable to the Group's auditors for the audit of the Group's financial statements	48	35
Fees payable to the Group's auditors for the audit of the Company's subsidiaries	99	58
Operating leases - plant and machinery	241	273
Operating leases - other	22,790	22,233
Fair value movement of derivative financial instruments	482	(1,178)
Other exchange loss	54	191
Inventory recognised as an expense	85,959	78,415

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

4 Employees

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

	2020	2019
	Number	Number
Selling and distribution	1,192	1,125
Administration	126	119
	1,318	1,244

The average monthly number of persons employed by the Company was two (2019: two).

Staff costs (for the above persons including directors):

	2020	2019
	£'000	£'000
Wages and salaries	32,516	29,550
Social security costs	2,156	2,009
Other pension costs (see note 19)	733	490
Share based payments	1,204	203
Total direct costs of employment	36,609	32,252

In addition to the above, costs relating to temporary and contract staff totalled £1,876k (2019: £2,237k).

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

5 Directors' emoluments

	2020	2019
	£'000	£'000
Emoluments (including benefits in kind)	735	579
Compensation for loss of office including payment in lieu of notice	-	188
Pension contributions to money purchase schemes	23	14
Share based payments	539	82
	1,297	863

As at the period end date, four (2019: three) directors held shares under a long term incentive plan.

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

	2020	2019
	£'000	£'000
Emoluments (including benefits in kind)	385	343
Pension contributions to money purchase schemes	10	9
Share based payments	301	56
	696	408

The highest paid director did not exercise any shares in the period (2019: none).

During the period benefits were accruing to two (2019: two) directors under defined contribution schemes.

Remuneration of key management and directors:

	2020	2019
	£'000	£'000
Emoluments (including benefits in kind)	2,241	1,766
Compensation for loss of office including payment in lieu of notice	-	188
Pension contributions to money purchase schemes	76	52
Share based payments	1,128	188
	3,445	2,194

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

6 Finance income

	2020	2019
	£'000	£'000
Interest receivable on bank deposits	159	85

7 Finance costs

	2020	2019
	£'000	£'000
Interest payable on overdrafts and bank loans	103	75
Other loans (interest payable on financial liabilities at amortised cost)	9,957	9,300
	10,060	9,375

Interest payable on other loans is not cash interest and relates to the interest accruing on investor loan notes. The interest rate on the investor loan notes was changed to a fixed rate of 9% on 31 August 2017 from a stepped rate of 10% rising to 14%. The expiry date of the instrument was extended by three years to 3 May 2023.

As a result of this refinance event, the effective rate of interest over the remaining period reduced from 8.88% to 7.09% with effect from 31 August 2017 and remained at 7.09% throughout the current and prior financial years.

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

8 Tax on loss

	2020 £'000	2019 £'000
Current tax:		
UK corporation tax on losses for the period	1,065	739
Adjustments in respect of previous periods	304	260
	1,369	999
Deferred tax:		
Origination and reversal of timing difference	(167)	(112)
Adjustments in respect of previous periods	(63)	499
Effect of changes in tax rates	18	12
	(212)	399
Total tax on loss	1,157	1,398

The tax assessed for the period is higher (2019: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2020 £'000	2019 £'000
Loss before taxation	(7,962)	(7,781)
Loss before taxation multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	(1,513)	(1,478)
Effects of:		
Expenses not deductible for tax purposes	3,317	2,105
Income not taxable	(80)	-
Deferred tax not recognised	(826)	-
Adjustments in respect of previous periods	241	759
Re-measurement of deferred tax – change in UK tax rate	18	12
Total tax charge for the period	1,157	1,398

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, had the proposed tax rate change been substantively enacted by the balance sheet date, the deferred tax asset would have increased by £101k.

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

9 Intangible assets

	Goodwill	Computer software	Total
	£'000	£'000	£'000
Cost			
At 17/02/2019	96,458	3,939	100,397
Additions	-	1,166	1,166
Disposals	-	(3)	(3)
At 16/02/2020	96,458	5,102	101,560
Accumulated amortisation			
At 17/02/2019	42,465	3,388	45,853
Charge for the period	4,806	552	5,358
Disposals	-	(1)	(1)
At 16/02/2020	47,271	3,939	51,210
Net book value			
At 16/02/2020	49,187	1,163	50,350
At 17/02/2019	53,993	551	54,544

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

The Company has no intangible fixed assets (2019: none).

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

10 Tangible assets

	Leasehold improvements £'000	Plant and machinery £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 17/02/2019	40,430	2,742	2,484	15,980	61,636
Additions	1,607	254	915	1,628	4,404
Disposals	(8)	(54)	(57)	(50)	(169)
At 16/02/2020	42,029	2,942	3,342	17,558	65,871
Accumulated depreciation					
At 17/02/2019	21,581	2,448	2,093	10,419	36,541
Charge for the period	3,066	119	226	1,998	5,409
Disposals	(1)	(56)	(57)	(46)	(160)
At 16/02/2020	24,646	2,511	2,262	12,371	41,790
Net book value					
At 16/02/2020	17,383	431	1,080	5,187	24,081
At 17/02/2019	18,849	294	391	5,561	25,095

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

The Company has no tangible fixed assets (2019: none).

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

11 Investments

The carrying value of the Company's investments in subsidiaries was as follows:

	Group companies £'000
At 17/02/2019	4,636
Share based payment expense in respect of subsidiary employees	1,016
At 16/02/2020	5,652

The Company has the following subsidiaries:

Subsidiary undertaking	Registered number	% Ownership of ordinary shares	Country of incorporation	Principal activities
<u>Held directly by the Company:</u>				
Stitch 2 Limited	07216740	100	UK	Holding company
<u>Held indirectly:</u>				
Stitch 3 Limited	07217283	100	UK	Holding company
Stitch Bidco Limited	07068903	100	UK	Holding company
Hobbycraft Trading Limited	00806269	100	UK	Retail
Hobbycraft Superstores Limited	03289788	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. Hobbycraft Group Limited has taken the audit exemption for the following subsidiaries by virtue of s479A of the Companies Act: Stitch 2 Limited, Stitch 3 Limited, Stitch Bidco Limited. A Parent Company guarantee has been provided for these entities under s479C of the Companies Act. The directors believe that the carrying value of the investments is supported by their underlying net assets and their value in use, which has been assessed using estimated future cash flows discounted to their present value.

The registered office of all subsidiary undertakings is:

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

12 Inventories

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Goods for resale	33,960	32,023	-	-

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 £95k at 16 February 2020 (17 February 2019: £188k). Write-downs and any reversal of write-downs are included in cost of sales.

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

13 Debtors

	Group	Group	Company	Company
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Trade debtors	213	262	-	-
Amounts owed by Group undertakings	-	-	822	1,817
Other debtors	471	498	-	-
Deferred tax (see note 18)	856	644	-	-
Prepayments and accrued income	6,225	5,376	2	-
	7,765	6,780	824	1,817
Due within one year	6,909	6,136	2	-
Due after more than one year	856	644	822	1,817
	7,765	6,780	824	1,817

A deferred tax asset has been recognised by the Group 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

	Group	Group	Company	Company
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Trade creditors	15,428	16,107	-	-
Amounts owed to Group undertakings	-	-	118	731
Corporation tax	735	642	-	-
Other taxation and social security	6,322	5,125	-	-
Other creditors	5,941	5,332	-	-
Derivative financial liabilities	482	-	-	-
Accruals and deferred income	5,844	4,111	4	5
	34,752	31,317	122	736

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

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

15 Creditor amounts falling due after more than one year

	Group	Group	Company	Company
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Investor loan notes	150,802	140,845	-	-
Accruals and deferred income	8,663	9,198	358	493
Share based payment liability (see note 20)	1,443	238	1,443	238
	160,908	150,281	1,801	731

Accruals and deferred income falling due after more than one year relate to lease incentives which are expected to be amortised to the Profit and Loss Account over the remaining term of the leases or to the first break clause.

At 16 February 2020 the Group had access to a £6.0m working capital facility provided by Lloyds, including a £2.5m overdraft facility with an interest rate of LIBOR + 3%. At 16 February 2020 the overdraft facility was un-utilised (2019: un-utilised). The facility expired on 30 April 2020 and it has been replaced with a new £3.5m working capital facility with an expiry date of 31 January 2021. The new facility provides a £1.0m duty deferment guarantee and £2.5m of credit relating to forward foreign exchange contracts. Lloyds have a floating charge debenture over the assets of Stitch Bidco Limited and Hobbycraft Trading Limited. In the event of a liquidation of the Group, Lloyds will receive priority over unsecured creditors in the repayment of any amounts owed by Stitch Bidco Limited and Hobbycraft Trading Limited to Lloyds.

The interest rate on the investor loan notes was changed to a fixed rate of 9% on 31 August 2017 from a stepped rate of 10% rising to 14%. The expiry date of the instrument was extended by three years to 3 May 2023. As a result of this refinance event, the effective rate of interest over the remaining period reduced from 8.88% to 7.09% with effect from 31 August 2017 and remained at 7.09% throughout the current and prior financial years. At 16 February 2020 the rolled up interest included in the unsecured investor loan notes was £41,065k (2019: £31,108k).

Maturity of debt

The Group's total debt is due for repayment as follows:

	Group	Group	Company	Company
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
In less than one year	-	-	-	-
In more than one year but less than two years	-	-	-	-
In more than two years but less than five years	150,802	140,845	-	-
In more than five years	-	-	-	-
	150,802	140,845	-	-

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

16 Financial instruments

The Group's financial instruments may be analysed as follows:

	Group	Group	Company	Company
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Financial assets measured at amortised cost	4,303	3,913	822	1,817
Financial liabilities measured at amortised cost	178,483	166,175	1,923	1,467
Derivative financial instruments measured at fair value	482	-	-	-

Financial assets measured at amortised cost comprise trade debtors, other debtors, accrued income and amounts owed by subsidiary undertakings.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors, accruals, loan notes and amounts owed to subsidiary undertakings.

Derivative financial instruments

The Group enters into forward foreign currency contracts to mitigate the exchange rate risk for foreign currency purchases. At 16 February 2020, there were 23 outstanding contracts (2019: no outstanding contracts) maturing within 12 months of the period end. The Group was committed to buy \$20,100k for a fixed £ Sterling amount.

The fair value of outstanding forward foreign currency contracts reflects the mark-to-market valuation confirmed by the contract provider. Refer to the Directors' Report for consideration of the nature and extent of the risks arising from these financial instruments.

The Company has no derivative financial instruments (2019: none).

17 Provisions for liabilities

The provision in the financial statements for the Group is as follows:

	Dilapidations provision
	£'000
At 17 February 2019 and 16 February 2020	40

The provision for dilapidations was set up in respect of the expected costs of repair that would arise on the exit of a leased site, which is not expected to be until at least 2022.

The Company has no provisions (2019: nil).

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

18 Deferred tax

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

	2020	2019
	£'000	£'000
Accelerated capital allowances	834	622
Short term timing differences	22	22
	856	644

The movement on the deferred tax asset is as follows:

	£'000
At 17 February 2019	644
Deferred tax credit in Profit and Loss Account for the period	149
Adjustments in respect of previous periods	63
At 16 February 2020	856

The Company has no provisions for deferred tax.

A deferred tax asset of £82k (2019: £832k) in relation to carried forward losses has not been recognised as the recoverability of this amount in the foreseeable future is not sufficiently certain.

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.

19 Pensions and similar obligations

During the period the Group made contributions on behalf of a number of employees and two directors (2019: two) to defined contribution schemes. The assets of the schemes are held separately from those of the Group.

The pension charge, representing contributions payable by the Group to such schemes, including in respect of redundancy payments, amounted to £733k (2019: £490k).

Contributions totalling £112k (2019: £74k) were payable at the period end and are included in creditors.

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

20 Share based payments

Hobbycraft Group Limited operates two share schemes. These schemes are the Executive Scheme and the Hobbycraft Share Offer Plan. Up until an amendment in the terms on 30 November 2018 both schemes were accounted for as equity settled schemes. The amendment, which is explained below, modified the schemes to being recognised as cash-settled schemes.

All of the shares held were issued at market value. Up until the modification, a charge was recognised in the Profit and Loss Account in reference to the fair value at the date at which the shares are granted. The charge in respect of awards granted was spread over the vesting period, which reflected management's expectation of the date of change of control of the Group. This charge to the Profit and Loss Account was recognised in equity in the share-based payments reserve.

Modification

On 30 November 2018, Hobbycraft Group Limited amended the terms for the 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. As a result, the share schemes are accounted for as cash-settled.

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

Executive Scheme

Under the Executive scheme, certain employees acquired the legal and beneficial ownership of "A" Ordinary shares. The movements in the period are outlined below:

	Group	Group	Company	Company
	2020	2019	2020	2019
	Number of shares	Number of shares	Number of shares	Number of shares
	'000s	'000s	'000s	'000s
Brought forward	190,000	145,000	50,000	65,000
Granted in the period	20,000	110,000	-	50,000
Forfeited in the period	-	(65,000)	-	(65,000)
Carried forward	210,000	190,000	50,000	50,000

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

20 Share based payments (continued)

The following table lists the inputs to the model for the calculation of the fair value of the cash-settled share based payments at the end of the period:

	2020	2019
Dates of grants	23/07/2019	30/11/2018
Weighted average share price	8.4p	6.6p
Exercise price	1.6p	2.3p
Expected volatility (%)	30.40%	33.37%
Expected life (years)	3	3
Dividend yield (%)	0.00%	0.00%
Risk-free interest rate (%)	2.70%	1.10%

The weighted average share price at the end of the period was 8.4p and at the date of grant it was 6.9p.

Hobbycraft Share Offer Plan

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

The following table summarises the movements in treasury shares that have not unconditionally vested under the rules of the scheme whether held by the EBT or legally owned by individuals:

Treasury shares ('000s)

	Shares owned by the EBT	Beneficially owned within EBT	Legally owned outside EBT	Total	Shares owned by the EBT	Beneficially owned within EBT	Legally owned outside EBT	Total
	2020	2020	2020	2020	2019	2019	2019	2019
Brought forward	102,500	117,500	190,000	410,000	202,000	63,000	145,000	410,000
Sold in the period	(20,000)	-	-	(20,000)	(110,000)	-	(65,000)	(175,000)
Purchased in the period	-	-	20,000	20,000	65,000	-	110,000	175,000
Transfers to/from beneficial owners	(30,500)	30,500	-	-	(54,500)	54,500	-	-
Total	52,000	148,000	210,000	410,000	102,500	117,500	190,000	410,000

The sales and transfers of shares out of the EBT led to a total gain on allocation of shares of £7k, causing the ESOT reserve to increase from £311k in the prior to £318k at the balance sheet date.

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

20 Share based payments (continued)

The following table lists the inputs to the model for the calculation of the fair value of the cash-settled share based payments at the end of the period:

	2020	2019
Dates of grants	17/10/2019 24/12/2019	30/11/2018
Weighted average share price	8.4p	6.6p
Exercise price	1.6p	2.3p
Expected volatility (%)	30.40%	33.37%
Expected life (years)	3	3
Dividend yield (%)	0.00%	0.00%
Risk-free interest rate (%)	2.70%	1.10%

The weighted average share price at the end of the period was 8.4p and at the dates of grants it ranged from 7.4p to 8.5p.

Effect on the financial statements

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

	2019	2019
	£'000	£'000
Equity settled share based payment credit	-	(35)
Cash-settled share based payment expense	1,204	238
Total share based payment expense	1,204	203

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

21 Called up share capital

	Group and Company 2020 £'000	Group and Company 2019 £'000
Authorised, allotted and fully paid		
410,008,500 (2019: 410,000,000) "A" ordinary shares of 0.01p each	41	41
1,590,000,200 (2019: 1,590,000,200) "B" ordinary shares of 0.01p each	159	159
591,913,054 (2019: 591,913,054) deferred shares of 0.01p each	59	59
	259	259

Both "A" and "B" ordinary shares carry rights to vote and attend at general meetings and entitle the holder to receive dividends, with no class of shares preferred to the other. Each "A" and "B" share carries a single vote.

Upon a winding up or other return of capital or assets to members of the Company, the holders of the "A" and "B" ordinary shares are entitled to a payment to be distributed amongst them, according to the amount paid up on each share.

No dividends have been proposed or paid during the period (2019: nil).

22 Commitments under operating leases

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

	Land and buildings 2020 £'000	Other 2020 £'000	Total 2020 £'000	Land and buildings 2019 £'000	Other 2019 £'000	Total 2019 £'000
Payment due:						
Not later than 1 year	23,176	250	23,426	22,491	302	22,793
Later than 1 year and not later than 5 years	63,953	281	64,234	70,850	320	71,170
Later than 5 years	25,420	-	25,420	25,780	-	25,780
Total	112,549	531	113,080	119,121	622	119,743

The Company had no operating leases in the current and prior years.

23 Capital commitments

At 16 February 2020 the Group had £341k of capital commitments (2019: nil) and the Company had no capital commitments (2019: nil).

24 Contingent liabilities

At 16 February 2020 the Group and Company had no contingent liabilities (2019: nil).

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

25 Related party transactions

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'.

Transactions with Private Equity investors

The ultimate controlling party, Bridgepoint Europe Portfolio IV LP, held the following loan notes in Stitch 2 Limited at the period end:

	2020	2019
	£'000	£'000
Unsecured subordinated redeemable Investor "B" loan notes (including rolled up interest)	149,994	140,091

The related interest expense charged to the Profit and Loss Account in the year was £9,903k (2019: £9,250k).

Monitoring fees of £150k (2019: £150k) payable to Bridgepoint Advisers Limited were charged to the Profit and Loss Account in the 52 weeks ended 16 February 2020. At 16 February 2020 £nil (2019: £nil) was due to Bridgepoint Advisers Limited.

Transactions with directors and key management

A director of the Company held the following loan notes in Stitch 2 Limited at the period end:

	2020	2019
	£'000	£'000
Unsecured subordinated redeemable Investor "B" loan notes (including rolled up interest)	591	542

The related interest expense charged to the Profit and Loss Account in the year was £49k (2019: £44k).

Transactions with other related parties

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 £562k (2019: £567k) in the period in property rentals and overhead recharges. At 16 February 2020 £20k (2019: £20k) was due to Haskins Garden Centres Limited.

At 16 February 2020 £1k (2019: £nil) was due to Pepco Services LLP, which is owned by Bridgepoint. During the period Hobbycraft Trading Limited incurred expenses of £145k (2019: £nil) to Pepco Services LLP for advisory services rendered.

At 16 February 2020 £nil (2019: £nil) was due to Estera Trust (Jersey) Limited, which was owned by Bridgepoint up until 19 July 2019. Up until that date, Hobbycraft Trading Limited incurred expenses of £5k (2019: £nil) to Estera Trust (Jersey) Limited relating to the administration of the Employee Benefit Trust.

Hobbycraft Group Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 16 February 2020

26 Controlling party

Hobbycraft Group Limited is the ultimate parent of the Group and is the smallest and largest group in which the results of the Company were consolidated.

The ultimate controlling party is a fund managed by Bridgepoint Advisers Limited. On 25 October 2019 a fund transfer took place. Prior to that date, Hobbycraft Group Limited was part of Bridgepoint Europe IV Private Equity Fund, whereas from that date onwards Hobbycraft Group Limited is part of Bridgepoint Europe Portfolio IV LP.