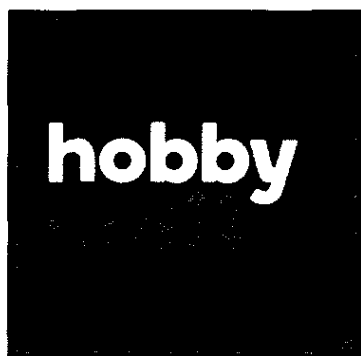




STITCH BIDCO LIMITED

Annual Report

For the 52 weeks ended 20 February 2022

Registered number: 07068903

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Stitch Bidco Limited

Annual Report for the 52 weeks ended 20 February 2022

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Stitch Bidco Limited

Directors and Advisors

Directors	Dominic Jordan Russell Harrison Katherine Paterson
Registered office	7 Enterprise Way Aviation Park Bournemouth International Airport Hurn, Christchurch Dorset BH23 6HG
Solicitor	Travers Smith LLP 10 Snow Hill London EC1A 2AL
Banker	Lloyds Bank plc 25 Gresham Street London EC2V 7HN

Stitch Bidco Limited

Strategic Report for the 52 weeks ended 20 February 2022

The directors present their Strategic Report for the 52 weeks ended 20 February 2022.

Principal activities

The principal activity of the Company is that of being the holding company of Hobbycraft Trading Limited, whose business is principally the sale of arts and craft related products.

Review of business and future developments

The Statement of Income and Retained Earnings for the period is set out on page 5. The profit for the financial period was £14,463k (2021: loss £236k). As at the period end the Company had net assets of £23,399k (2021: £8,936k).

Our financial statements are ordinarily prepared on a 52-week basis. This causes our period end date to change each year moving away from the accounting reference date. In order to realign our period end date, it was necessary to report a 53-week period in the prior period ended 21 February 2021.

During the year dividends of £15.0m were received from Hobbycraft Trading Limited, the Company's directly-held subsidiary. This payment was funded from excess liquidity in order to facilitate a repayment of the Group's Investor Loan Notes, thereby reducing accrued interest payable upon maturity. The receipt of this income was used to repay £15.0m of an intercompany loan owed by the Company to its parent, Stitch 3 Limited.

In the prior period, a refinancing took place providing the Company with access to a £7.0m term loan. The term loan was drawn on 4 February 2021 with the receipts then loaned to Hobbycraft Trading Limited, the Company's directly-held subsidiary. The refinancing has also provided Hobbycraft Trading Limited with access to an Asset Backed Lending Revolving Credit Facility of up to £35.0m, which remained undrawn at period end.

The directors are satisfied that there will be no significant changes to the future development of the business and it will continue to act as an intermediate holding company. As Stitch Bidco Limited does not trade, it is expected to incur a net loss position in future resulting from the interest payable on the term loan and on intercompany loan notes.

Principal risks and uncertainties

Hobbycraft Group Limited is the ultimate parent company and is the smallest and largest group in which the results of the Company were consolidated. The directors of Hobbycraft Group Limited manage the Group's operations on a group-wide basis. For this reason, the Company's directors believe that disclosure of the principal risks and uncertainties of the Company and analysis using key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business of Stitch Bidco Limited. The development, performance and position of Hobbycraft Group Limited is discussed in the Annual Report of Hobbycraft Group Limited which does not form part of this report.

The Company has no significant exposure to financial risks. Whilst the Company is exposed to interest rate risk given that the term loan bears interest at a rate of SONIA plus a fixed margin of 4.0%, the directors do not consider the risk to be significant.

On behalf of the Board



Russell Harrison

22 June 2022

Stitch Bidco Limited

Directors' Report for the 52 weeks ended 20 February 2022

The directors present their report and the financial statements for the 52 weeks ended 20 February 2022. The comparative period was the 53 weeks ended 21 February 2021.

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Hobbycraft Group Limited. The directors have received confirmation that Hobbycraft Group Limited intends to support the Company for at least one year after these financial statements are signed. For further details, see note 1 of the financial statements.

Future developments

Information on the future developments of the Company can be found within the Strategic Report.

Energy and carbon emissions

As a low energy user, the Company is not required to provide information on its energy usage in accordance with the Streamlined Energy and Carbon Reporting (SECR) policy.

Dividends

There were no dividends paid or proposed during the 52 weeks ended 20 February 2022 (2021: none). Dividends of £15.0m were received from Hobbycraft Trading Limited, the Company's directly-held subsidiary (2021: none).

Directors

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

Dominic Jordan
Katherine Paterson
Russell Harrison

Qualifying third party indemnity provisions

At the time the report is approved and during the period a qualifying third party indemnity provision is in place 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 Company's systems of internal financial controls. The committee meets at least once a year.

Statement of directors' responsibilities in respect of the financial statements

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Stitch Bidco Limited

Directors' Report (continued) for the 52 weeks ended 20 February 2022

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

On behalf of the Board



Russell Harrison

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

22 June 2022

Stitch Bidco Limited

Statement of Income and Retained Earnings for the 52 weeks ended 20 February 2022

		2022	2021
	Note	£'000	£'000
Other operating income		15,068	71
Operating profit		15,068	71
Interest payable and similar expenses	2	(605)	(307)
Profit/(loss) before taxation	3	14,463	(236)
Tax on profit/(loss)	4	-	-
Profit/(loss) for the financial year	12	14,463	(236)
Opening accumulated profits		7,446	7,682
Profit/(loss) for the financial year		14,463	(236)
Closing retained earnings		21,909	7,446

All amounts relate to continuing activities.

The accounting policies and notes on pages 7 to 19 form part of these financial statements.

Stitch Bidco Limited
Balance Sheet as at 20 February 2022

Company number: 07068903

		20 February 2022 £'000	21 February 2021 £'000
	Note		
Fixed assets			
Investments	6	119,464	119,464
Creditors: amounts falling due within one year	7	(90,229)	(102,717)
Net current liabilities		(90,229)	(102,717)
Total assets less current liabilities		29,235	16,747
Creditors: amounts falling due after more than one year	8	(5,836)	(7,811)
Net assets		23,399	8,936
Capital and reserves			
Called up share capital	11	1,380	1,380
Capital contribution reserve	12	110	110
Profit and Loss account	12	21,909	7,446
Total shareholders' funds	13	23,399	8,936

For the 52 weeks ended 20 February 2022 the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies. Directors' responsibilities:

- the Company is wholly-owned by its parent company, Stitch 3 Limited, and the parent has not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476;
- the directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

The financial statements on pages 5 to 19 were approved by the directors, authorised for issue on 22 June 2022 and signed on its behalf by:



Russell Harrison

Stitch Bidco Limited

Notes to the Financial Statements for the 52 weeks ended 20 February 2022

1 Accounting policies

Statement of compliance

Stitch Bidco Limited is a private limited company incorporated, domiciled and registered in England. The registered number of the company is 07068903 and the registered address is Hobbycraft Head Office, 7 Enterprise Way, Aviation Park, Christchurch, Dorset, BH23 6HG.

The Company's financial statements have been prepared on a going concern basis in compliance with FRS 102 and the Companies Act 2006 as it applies to the financial statements of the Company for the 52 weeks ended 20 February 2022.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation

These financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom, drawn up for the 52 weeks ended 20 February 2022. The comparative period was the 53 weeks ended 21 February 2021. The principal accounting policies, which have been applied consistently throughout the period, are set out below.

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

Going concern

Notwithstanding net current liabilities of £90,229k as at 20 February 2022, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the reasons outlined below.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

Those forecasts are dependent on the Company's ultimate parent company, Hobbycraft Group Limited, not seeking repayment of the amounts currently due to the group. Hobbycraft Group Limited has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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

Exemptions for qualifying entities under FRS 102

The Company is a wholly-owned subsidiary of Stitch 3 Limited and is included in the consolidated financial statements of Hobbycraft Group Limited, which are publicly available. Consequently the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The Company has taken advantage of the exemption, under FRS 102 para 3.17(d) from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, Hobbycraft Group Limited, includes the Company's cash flows in its own consolidated financial statements.

Stitch Bidco Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 20 February 2022

1 Accounting policies

Exemptions for qualifying entities under FRS 102 (continued)

The Company has also taken advantage of the exemption detailed in FRS 102 paragraphs 1.12(c) relating to certain financial instrument disclosures as the information is provided in the consolidated financial statements of Hobbycraft Group Limited.

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

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

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 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.

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

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

Investments in subsidiary undertakings

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

Impairment of non-financial assets

The carrying amounts of the Company's non-financial 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.

Stitch Bidco Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 20 February 2022

1 Accounting policies

Impairment of non-financial assets (continued)

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" (CGU)). An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the Profit and Loss Account. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (or group of units) on a pro rata basis.

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

Share-based payments

The Company operated a share-based payment scheme during the period: the Executive Scheme.

On 30 November 2018, Hobbycraft Group Limited amended the terms for the scheme 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 scheme 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 scheme could benefit from both cash and equity-settled value, management have used judgement to determine which outcome is the most probable for determining the appropriate accounting treatment.

Despite the fact that management deem the cash-settled payment to be the most likely outcome the share scheme would continue to be accounted for as equity-settled in the Company as the obligation to cash-settle exists in the ultimate parent (Hobbycraft Group Limited). The share-based payments charge is recorded in the Profit and Loss Account of Hobbycraft Trading Limited, a fellow Group company, because that company is deemed to be receiving the benefit of the employees' services.

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 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.

Financial instruments

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

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances, and loans to fellow group companies, are initially recognised at transaction price, 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.

Stitch Bidco Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 20 February 2022

1 Accounting policies

Financial instruments (continued)

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

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, bank loans 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. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

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.

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

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.

Share capital

Ordinary shares are classified as equity.

Interest payments

Finance costs are charged to the Profit and Loss Account 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 instrument.

Stitch Bidco Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 20 February 2022

1 Accounting policies

Critical judgements and estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following areas involve a higher degree of judgement or complexity, or are areas where assumptions and estimates are significant to the financial statements.

Judgements

The Company does not consider there to be any significant accounting judgements. The following is not disclosed as a significant judgement as it is not considered to give rise to material adjustment but is reviewed by management:

- *Debt restructuring*

Critical judgements are required when the Company and the wider group periodically reviews its debt structure. During the prior period, the period ending 21 February 2021, management were required to apply judgement on the fees and transaction costs directly attributable to the raising of debt and therefore eligible to be capitalised against the carrying value of the debt and to be amortised over the term of the debt.

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

- *Share-based payments*

The Company operated a share-based payment scheme during the period: 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 Company. The share-based payment charge is recognised in each period as it is incurred, based on a fair value model. The charge is not necessarily recorded in the Profit and Loss Account of the company that employs the members of management. It is instead reflected in the financial statements of the company receiving their services and it is therefore necessary for management to exercise judgement in identifying where to record the charge.

- *Impairment of investments*

The Company considers whether investments are impaired. Where an indication of impairment is identified the estimation of the recoverable amount of the investment value 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.

Stitch Bidco Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 20 February 2022

2 Interest payable and similar expenses

	2022	2021
	£'000	£'000
Interest payable on overdrafts and bank loans	246	15
Amortisation of capitalised debt arrangement fees	37	-
Interest payable to Group undertakings	322	292
	605	307

Interest payable on overdrafts and bank loans reflects the interest on the term loan, which is charged at SONIA plus a fixed margin of 4.0%.

Amortisation of capitalised debt arrangement fees relates to the release of capitalised fees incurred on the term loan.

Interest payable to Group undertakings consists of accrued interest on £1,145k of loan notes. Interest compounds at a rate of 10%.

3 Profit/(loss) before taxation

During the year dividend income of £15.0m was received from the Company's wholly owned subsidiary, Hobbycraft Trading Limited. The receipt of this income was used to repay £15.0m of an intercompany loan owed by the Company to its parent, Stitch 3 Limited.

The remaining other operating income is made up of a management fee of £68k (2021: £71k) receivable from the Company's directly-held subsidiary, Hobbycraft Trading Limited.

Interest payable and similar expenses consists of interest of £246k (2021: £15k) on the term loan and interest of £322k (2021: £292k) payable to the Company's parent entity, Stitch 3 Limited, which accrued on loan notes. Amortisation of capitalised debt arrangement fees of £37k (2021: £nil) was recognised in the period.

4 Tax on profit/(loss)

The charge for the period can be reconciled to the profit/(loss) per the Statement of Income and Retained Earnings as follows:

	2022	2021
	£'000	£'000
Profit/(loss) before taxation	14,463	(236)
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	2,748	(45)
Effects of:		
Income not taxable	(2,850)	-
Group relief surrendered not paid for	102	45
Total tax charge for the period	-	-

As announced in the Spring Budget 2021 from 1 April 2023 the corporation tax rate will increase to 25% and has therefore been included in any transactions expected on or after 1 April 2023.

Stitch Bidco Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 20 February 2022

5 Directors' emoluments and employee information

Two directors (2021: two) were employed by the Company but paid by Hobbycraft Trading Limited for their services to the Hobbycraft Group Limited group of companies; their services as employees and directors of the Company were incidental to their other services within the Group.

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

	2022	2021
	Number	Number
Administration	2	2

Staff costs (for the above persons):

	2022	2021
	£'000	£'000
Wages and salaries	571	590
Social security costs	80	95
Other pension costs	20	20
Share-based payment (credit)/expense (see note 10)	(158)	514
Total direct costs of employment	513	1,219

With the exception of share-based payments, these employment costs were re-charged to Hobbycraft Trading Limited, a fellow Group company. The share-based payments charge was recorded directly in the Profit and Loss Account of Hobbycraft Trading Limited because that company is deemed to be receiving the benefit of the employees' services.

No directors exercised shares in the period (2021: nil). As at the period-end date, three (2021: three) of the Company's directors held options under long term share incentives.

Stitch Bidco Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 20 February 2022

6 Investments

	Group companies
	£'000
Cost	
At 21 February 2021 and 20 February 2022	119,464
Net book value	
At 21 February 2021 and 20 February 2022	119,464

The Company has the following subsidiaries:

Subsidiary undertaking	% Ownership of ordinary shares	Country of incorporation	Principal activities
<u>Held directly by the Company:</u>			
Hobbycraft Trading Limited	100	UK	Retail
<u>Held indirectly:</u>			
Hobbycraft Superstores Limited	100	UK	Dormant

Hobbycraft Trading Limited (a company registered in England) is a wholly owned subsidiary of Stitch Bidco Limited. Its business conducted is principally the sale of arts and craft related products, trading under the name Hobbycraft. The directors believe that the carrying value of the investment is supported by its underlying net assets and its value in use, which has been assessed using estimated future cash flows discounted to their present value. The assessment has taken into account a decline in trade due to consumer sentiment given the general economic climate. Despite significant levels of prudence used in the modelling, no impairment is shown to be necessary.

The dormant subsidiary (Hobbycraft Superstores Limited) is exempt from preparing and filing individual financial statements by virtue of s394A and s448A of the Companies Act 2006.

The registered office of all subsidiary undertakings is:

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

Stitch Bidco Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 20 February 2022

7 Creditor amounts falling due within one year

	2022	2021
	£'000	£'000
Bank loans and overdrafts	2,298	2,298
Amounts owed to Group undertakings	1,334	2,809
Loans from Group undertakings	86,597	97,597
Accruals and deferred income	-	13
	90,229	102,717

During the previous financial year a revolving credit facility expired, on 30 April 2020, and was replaced with a £3.5m working capital facility which ran until the date of the refinancing on 3 February 2021. This facility provided 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 amended to a minimum cash requirement of £5.0m which was tested monthly at each period end and on a rolling 13-week forecast. There were no covenant breaches during the prior period.

As a result of the refinancing on 3 February 2021, the £3.5m working capital facility was extinguished and £3.5m of cash was placed with Lloyds as cash collateral for the continued provision of £2.5m of credit for forward foreign exchange contracts and a £1.0m duty deferment guarantee. The refinancing included access to a £7.0m term loan which was drawn by the Company on 4 February 2021, as well as providing Hobbycraft Trading Limited, the Company's directly-held subsidiary, with access to an Asset Backed Lending Revolving Credit Facility (ABL RCF) of up to £35.0m, which remained undrawn at period end (2021: undrawn).

From August 2021 onwards, Hobbycraft has been required to demonstrate compliance with two covenants: a "Senior Leverage" covenant, comparing the ratio of net debt/cash to consolidated EBITDA, and a "Fixed Charge Cover Ratio" covenant ("FCCR"), comparing the ratio of fixed charges to consolidated cash flow. The Senior Leverage covenant applies on a monthly basis until such point that the term loan is fully repaid, whereas the FCCR covenant only applies monthly once the ABL RCF is drawn to the extent that the remaining availability falls below a certain level (below 10% at any time or below 15% for any rolling period of 20 consecutive business days).

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

Fees relating to the arrangement of the term loan have been recognised against the loan value and are amortised through the Profit and Loss Account over the life of the loan. Fees totalling £105k were initially capitalised against the loan; as at 20 February 2022 a balance of £68k remains (2021: £105k), the current liability being £35k (2021: £37k).

Amounts owed to Group undertakings are unsecured, interest-free, have no fixed date of repayment and are repayable on demand.

Stitch Bidco Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 20 February 2022

8 Creditor amounts falling due after more than one year

	2022	2021
	£'000	£'000
Bank loans and overdrafts	2,300	4,597
Loan notes issued by Group undertakings	1,145	1,145
Accrued interest payable on loan notes	2,391	2,069
	5,836	7,811

Interest is accrued on loan notes of £1,145k which expire in August 2029 with no repayments falling due before this time, at a compounding interest rate of 10%.

Maturity of debt

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

	2022	2021
	£'000	£'000
In less than one year	90,229	102,704
In more than one year but less than two years	2,300	2,298
In more than two but less than five years	-	5,513
In more than five years	3,536	-
	96,065	110,515

9 Deferred tax

A deferred tax asset of £28k (2021: £21k) in relation to losses has not been recognised as the recoverability of this amount in the foreseeable future is not sufficiently certain.

Stitch Bidco Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 20 February 2022

10 Share-based payments

The Company participates in a share-based payment scheme operated by the Group: the Executive Scheme.

Modification

On 30 November 2018, Hobbycraft Group Limited amended the terms for the scheme 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 scheme will continue to be entitled to this value alongside other equity holders, in addition to the cash-settled payment outlined above.

Accounting treatment

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

Despite the fact that management deem the cash-settled payment to be the most likely outcome the share scheme would continue to be accounted for as equity-settled in the Company as the obligation to cash-settle exists in the ultimate parent (Hobbycraft Group Limited). The share-based payments charge was recorded in the Profit and Loss Account of Hobbycraft Trading Limited, a fellow Group company, because that company is deemed to be receiving the benefit of the employees' services.

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 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 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

There were no shares granted to employees of the Company under the Executive Scheme during the year (2021: none).

Effect on the financial statements

The effect of accounting for share-based payments on the Company's profit/(loss) before taxation is as follows:

	2022	2021
	£'000	£'000
Equity settled share-based payment charge	-	-

A share-based payments credit in respect of the Company's employees of £158k (2021: charge of £514k) was recorded in the Profit and Loss Account of Hobbycraft Trading Limited, a fellow Group company, because that company is deemed to be receiving the benefit of the employees' services.

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

Stitch Bidco Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 20 February 2022

11 Called up share capital

	2022	2021
	£'000	£'000
Authorised		
1,380,048 (2021: 1,380,048) ordinary shares of £1 each	1,380	1,380
Allotted and fully paid		
1,380,048 (2021: 1,380,048) ordinary shares of £1 each	1,380	1,380

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

No dividends have been proposed or paid during the period (2021: nil).

12 Reserves

	Capital contribution reserve	Profit and loss account
	£'000	£'000
At 21 February 2021	110	7,446
Profit for the financial year	-	14,463
At 20 February 2022	110	21,909

13 Total shareholders' funds

	2022	2021
	£'000	£'000
Profit/(loss) for the financial year	14,463	(236)
Opening shareholders' funds	8,936	9,172
Closing shareholders' funds	23,399	8,936

Stitch Bidco Limited

Notes to the Financial Statements (continued) for the 52 weeks ended 20 February 2022

14 Related party transactions

Transactions with other group companies have not been disclosed, in accordance with the exemption permitted by FRS 102 para 33.1A.

There were no other related party transactions which require disclosure in accordance with FRS 102.

15 Controlling party

The Company's immediate parent undertaking is Stitch 3 Limited.

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

The ultimate controlling party is the Bridgepoint Europe Portfolio IV LP fund, which is in turn managed by Bridgepoint Advisers Limited.