hobby craft

HOBBYCRAFT GROUP LIMITED

Annual Report

For the 52 weeks ended 18 February 2018

Registered number: 07216034

Hobbycraft Group Limited

Annual Report for the 52 weeks ended 18 February 2018

Contents

Hobbycraft Group Limited

Directors and Advisors

Directors	Matt Davies Dominic Jordan Guy Weldon Emma Watford Lawrence Christensen
Registered office	7 Enterprise Way Aviation Park Bournemouth International Airport Hurn, Christchurch Dorset BH23 6HG
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Savannah House 3 Ocean Way Southampton SO14 3TJ
Solicitors	Travers Smith LLP 10 Snow Hill London EC1A 2AL
Bankers	Lloyds Banking Group plc 2 City Place Beehive Ring Road Gatwick West Sussex RH6 0PA

Hobbycraft Group Limited

Chairman's Statement for the 52 weeks ended 18 February 2018

Hobbycraft remains the market leader in the growing UK craft market and commands a 'Top 3' market share position in the key product markets in which it competes.

This position is underpinned by over 3 million loyal Hobbycraft Club members who benefit from more than 90 retail outlets across the country, staffed by a knowledgeable base of colleagues, and numerous multi-channel touch points which provide both quality products and unrivalled crafting inspiration.

After a step back in profitability last year, Hobbycraft has re-established both top and bottom line growth during the year despite the challenges of reduced footfall in the Retail sector and continuing economic uncertainty both in the UK and globally. Improved processes and growth initiatives put us in a robust position to face these challenges in the coming years.

The business continues to evolve into a balanced, multi-channel retailer and developments this year have included:

- 21.5% growth in e-commerce sales and a 77.7% increase in profitability with participation increasing from 8.2% to 9.3%;
- An expanded store footprint to 90 with the opening of four small format stores;
- Rationalisation of our stock holding to improve quality whilst reducing average stock per store.

Our programme to deliver better value for customers continues as we consolidate our product range whilst delivering a marked reduction in both SKU count and aged/slow moving stock.

In the coming year, we plan to grow total company revenues by delivering a multi-channel shopping experience through our existing store estate, five new small format stores and an enhanced online proposition.

This year has also seen changes in the leadership team with CEO Catriona Marshall leaving in June, following a transformational six years at the helm, and the promotion of Dominic Jordan from Retail Operations Director to Chief Executive. Hobbycraft is in a strong position for the period ahead.

In addition, after four years as Chairman, I am stepping down and am pleased to welcome Matt Davies to the role. Matt joins the business with over 20 years of Retail experience, most recently as Tesco's UK boss but he has also run Halfords and Pets at Home and has a proven track record of value creation across stores and online.

Archie Norman
Chairman (resigned 1 May 2018)

The directors present their Strategic Report together with the audited consolidated financial statements for the 52 weeks ended 18 February 2018.

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 on-going review by management. Compliance with regulation, health and safety, legal and ethical standards is a high priority for the Group and the finance department take on an important oversight role in this regard.

The Group has developed a framework for identifying the risks that each business sector, and the Group as a whole, are exposed to and their impact on economic capital. This process is risk based and uses Individual Capital Assessment principles to manage our capital requirements and to ensure we have the financial strength and capital adequacy to support the growth of the business and to meet the requirements of policyholders, regulators and rating agencies.

The principal risks for our business arise from supply chain disruption, product obsolescence, sub-standard product quality and inaccurate pricing.

Business environment

The UK retail environment remains competitive, with different elements within our categories ranged by independents but also across many multi-site competitors, including the grocers. While the majority of companies do not offer similar broad coverage, there is sufficient interest, including from online specialists within individual categories, to make continual focus on value an important differentiating factor. This focus is even more important following the post-Brexit devaluation Sterling and the broader uncertain economic environment.

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 verticals, while also inspiring a new generation of customers through more accessible pricing and inspiring product selection coupled with an improved choice of demonstrations, workshops and video content.

Furthermore, our SKU reduction programme has helped to rationalise our range and build a simpler, better and cheaper business through the removal of more than 10,000 of our slowest-moving lines.

As we continue the evolution into a balanced, multi-channel retailer, the Group will continue to open new smaller format stores in relevant locations across the United Kingdom. We aim to maintain double digit growth online through our growing social media community, the Hobbycraft Club with 3.1 million loyal members, and the launch of an improved Click & Collect offering.

We remain focused on driving further efficiency in all areas of our operations, retail, distribution and central functions, with the scalability of e-commerce being a top priority.

Review of the business

The Group Profit and Loss Account for the period is set out on page 12. Revenue for the period was £168.5m (2017: £158.3m) and EBITDA before exceptional items was £9.8m (2017: £7.4m). Operating loss was £1.9m (2017: loss: £3.3m). At 18 February 2018, the Group had a cash position of £22.3m, net current assets of £26.3m and overall net liabilities of £27.0m.

During the year, we expanded our store footprint with the opening of four new stores in Merry Hill, Bath, Epping Forest and Farnborough but also closed our underperforming store at Staples Corner taking our total store network to 90 at period end and, now, 91 following the opening in early April of Lincoln. Our next new store opens in Rugby in July.

This store expansion coupled with the strength of our e-commerce channel, helped to drive like for like growth including e-commerce of 3.9% (2017: 1.0%). EBITDA before exceptional items improved to £9.8m in the year (2017: £7.4m) as improved processes in supply chain are embedded and growth initiatives helped to overcome the challenging economic conditions.

Our e-commerce channel continues to evolve with a sustained investment in the Hobbycraft Club, which has helped to boost the number of customers signed up to our e-mail and promotional programmes. This has been boosted further by the growth of both user-generated and inspirational video content coupled with an expanding and interactive Social Media community.

The Group will continue to invest for growth by increasing its footprint across the United Kingdom alongside an increasing multi-channel presence. The Board aims to increase EBITDA by both organic and new store sales growth, online growth, effective cost management and capital investment.

Loan note restructure

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.

On 21 December 2017 the Management loan note instrument was repaid after the partial waiving of accrued interest. Certain Investor loan note holders were also repaid after agreeing to a waiver of accrued interest as well as an exchange of loan note principal for equity. This has the effect of reducing shareholder indebtedness by £20.9m upon expiry of the loan notes in May 2023.

Key performance indicators ('KPIs')

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

	2018	**2017**
Retail sales	£168.5m	£158.3m
Gross profit %	55.1%	54.3%
EBITDA before exceptional items	£9.8m	£7.4m
LFL growth / (decline) (excluding e-commerce)	2.3%	(1.0%)
LFL growth (including e-commerce)	3.9%	1.0%
Average net stock per store (excluding Distribution Centre)	£191.6k	£228.2k
Cash generated from operations	£11.1m	£5.4m
Cash at bank and in hand [1]	£22.3m	£25.2m
Customer satisfaction (Net Promoter Score) [2]	82.4%	80.1%
Colleague engagement	87.7%	85.6%

[1] The reduction in cash year on year has arisen due to the loan note restructure.

[2] Net Promoter Score (NPS) is an industry-wide management tool that is used to assess the loyalty of customer relationships by asking "How likely is it you would recommend us to a friend?". The balance of responses between "Promoters" and "Detractors" gives an NPS%.

Environmental, Social and Corporate Governance (ESG) impacts

ESG principles are central to the business and factoring these into our business decisions is important for stakeholders, employees 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.

Future developments

Our plan remains unchanged as we continue to pursue our strategy to improve the broader appeal of our brand through leveraging our broad range of products to meet the needs of our value purchaser, as well as more specialist materials and newness to satisfy the requirements of craft enthusiasts.

This plan includes working closely with our suppliers to refine our ranges to meet emerging trends whilst counteracting the headwind of Brexit and economic uncertainty.

In the coming year, our focus will be to grow revenue through our existing store estate, the opening of up to five new locations in the smaller store format, improvement in trading margin and continued double-digit growth online. We have already improved our multi-channel experience and critical supply chain metrics, whilst initial trading in the first quarter has been ahead of the prior year.

On behalf of the Board

Dominic Jordan

11th July 2018

The directors present their report and the audited consolidated financial statements for the 52 weeks ended 18 February 2018. The comparative period was the 52 weeks ended 19 February 2017. A review of the business and future developments is set out in the Strategic Report.

Health and safety

The health and safety of our customers and colleagues in all areas of the business is of the highest importance to the Group. We ensure that all colleagues are well trained in this area and we are developing easier 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 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 29% of purchases by value) are denominated in US Dollars, with a smaller proportion in Euros. The Group has a proactive hedging policy in place to manage short/medium term foreign currency requirements and limit the exposure to currency volatility between the US Dollar, Euro and Sterling which during the year have been driven by the economic uncertainty associated with Brexit. Gains and losses from forward foreign exchange contracts are recorded within finance income/costs.

Liquidity and cash flow risk
In order to manage the liquidity and cash flow risks 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 access to £6.0m of banking facilities and has a net cash position of £22.3m at period end, which helps to reduce the risk.

Economic downturn

As a retailer the success of the business is reliant on consumer spending. In response to this risk, senior management closely monitors results and economic conditions and, when necessary, modifies business strategies accordingly. It is expected that a number of factors including the protracted Brexit negotiations, National Minimum/Living Wage legislation and cost inflation will have some impact on consumer spending in the short/medium term but the full impact is unknown.

Corporate Governance

A key element of our Corporate Governance is to ensure that we are compliant with all current and new legislation. There have been some notable changes during the period up to and including the signing of the Annual Report;

- *General Data Protection Regulation (GDPR)* – The protection of both customer and colleague data is of critical importance. We have updated, with external independent support, our data protection policies and training under the guidance of a new Data Protection Officer.

- *Gender Pay Reporting* – We have recently submitted our Gender Pay Gap report for 2017 and will continue to work towards reducing the gender pay gap throughout the business, which is driven by the majority of our roles being part time Sales Advisors in store.

- *National Living & Minimum Wage* – We remain mindful of the continual revisions in both National Living and Minimum wage rates, which the directors evaluate as part of colleague wage increases ensuring that we offer a competitive rate to minimise colleague turnover.

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 on-going 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 option scheme for senior managers to encourage the involvement of these colleagues in the Group's performance.

The Group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retaining colleagues who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

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 (2017: 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; and
- 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 18 February 2018 (2017: 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:

Archie Norman	Non-executive Chairman (resigned 1 May 2018)
Matt Davies	Non-executive Chairman (appointed 1 May 2018)
Catriona Marshall	Resigned 30 June 2017
Dominic Jordan	Appointed 17 April 2018
Matthew Moore	Resigned 4 May 2018
John Colley	Appointed 19 April 2017; resigned 9 September 2017
Lawrence Christensen	Non-executive
Guy Weldon	Investor Nominee
Emma Watford	Investor Nominee

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

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

PricewaterhouseCoopers 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 financial statements

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

Company law requires the directors to prepare financial statements for each financial 52 week period. Under that law the directors have prepared the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Going concern

The Group balance sheet shows net liabilities of £27.0m (2017: liabilities £21.1m) reflecting the loan notes issued to shareholders of the Company at the time of acquisition of Hobbycraft Trading Limited in April 2010. The interest is not required to be paid in cash by the Group and the majority shareholders of the Company control the loan notes.

The directors believe that this, together with £22.3m of net cash held in the Group, a £6m Working Capital facility until May 2019 and the historic and forecast trading performance and cash generation of the Group make the preparation of the Group financial statements on a going concern basis appropriate.

Dominic Jordan

11th July 2018

Report on the audit of the financial statements

Opinion

In our opinion, Hobbycraft Group Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 18 February 2018 and of the group's loss and cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Group and Company Balance Sheets as at 18 February 2018; the Group Profit and Loss Account, the Group and Company Statement of Changes in Equity, the Group Cash Flow Statement for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 18 February 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Julian Gray (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

11 July 2018

Hobbycraft Group Limited

Group Profit and Loss Account for the 52 weeks ended 18 February 2018

	Note	2018 £'000	2017 (restated) £'000
Revenue	2	**168,515**	158,320
Cost of sales		**(75,658)**	(72,419)
Gross profit		**92,857**	85,901
Other operating expenses excluding depreciation, amortisation and exceptional items	3	**(83,085)**	(78,537)
EBITDA before exceptional items		**9,772**	7,364
Exceptional items	3	**(1,110)**	-
EBITDA after exceptional items		**8,662**	7,364
Depreciation	3	**(4,972)**	(4,913)
Amortisation	3	**(5,567)**	(5,787)
Operating loss	3	**(1,877)**	(3,336)
Finance income	6	**36**	363
Finance costs	7	**(13,163)**	(11,800)
Loss before taxation		**(15,004)**	(14,773)
Tax on loss	8	**580**	321
Loss for the financial year		**(14,424)**	(14,452)

EBITDA is defined as operating loss on continuing activities before depreciation and amortisation.

All amounts relate to continuing activities.

The notes on pages 18 to 41 form part of these financial statements.

For details of the restatement, refer to note 1.

Hobbycraft Group Limited

Group Balance Sheet as at 18 February 2018

Registered number: 07216034

	Note	18 February 2018 £'000	19 February 2017 £'000
Fixed assets			
Intangible assets	9	**59,528**	64,639
Tangible assets	10	**24,121**	27,062
		83,649	91,701
Current assets			
Inventories	12	**27,396**	29,090
Debtors	13	**6,926**	6,764
Cash and cash equivalents		**22,338**	25,247
		56,660	61,101
Creditors: amounts falling due within one year	14	**(30,353)**	(26,831)
Net current assets		**26,307**	34,270
Total assets less current liabilities		**109,956**	125,971
Creditors: amounts falling due after more than one year	15	**(136,867)**	(147,036)
Provisions for liabilities	17	**(40)**	(40)
Net liabilities		**(26,951)**	(21,105)
Capital and reserves			
Called up share capital	21	**259**	259
Share premium account		**5,386**	2,333
Treasury shares		**(411)**	(411)
Share based payments		**35**	38
Capital contribution		**72,790**	67,262
Profit and loss account		**(105,010)**	(90,586)
Total shareholders' deficit		**(26,951)**	(21,105)

The financial statements on pages 12 to 41 were approved by the Board of Directors, authorised for issue on 11th July 2018 and signed on its behalf by:

Dominic Jordan

Hobbycraft Group Limited

Company Balance Sheet as at 18 February 2018

Registered number: 07216034

	Note	18 February 2018 £'000	19 February 2017 £'000
Fixed assets			
Investments	11	**4,452**	1,384
		4,452	1,384
Current assets			
Debtors	13	**1,844**	2,191
		1,844	2,191
Creditors: amounts falling due within one year	14	**(711)**	(685)
Net current assets		**1,133**	1,506
Total assets less current liabilities		**5,585**	2,890
Creditors: amounts falling due after more than one year	15	**(393)**	(573)
Net assets		**5,192**	2,317
Capital and reserves			
Called up share capital	21	**259**	259
Share premium account		**5,386**	2,333
Treasury shares		**(411)**	(411)
Share based payments		**35**	22
Profit and loss account		**(77)**	114
Total shareholders' funds		**5,192**	2,317

The net loss made by the Company during the period was £191k (2017: profit £99k).

The financial statements on pages 12 to 41 were approved by the Board of Directors, authorised for issue on 11th July 2018 and signed on its behalf by:

Dominic Jordan

Hobbycraft Group Limited

Group and Company Statements of Changes in Equity
for the 52 weeks ended 18 February 2018

Group	Called up share capital	Share premium account	Treasury shares	Share based payments	Capital contribution reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
At 21 February 2016	259	2,333	(105)	72	67,262	(76,134)	**(6,313)**
Share based payment charge	-	-	-	(34)	-	-	**(34)**
Loss for the financial year	-	-	-	-	-	(14,452)	**(14,452)**
Movement in Treasury shares	-	-	(306)	-	-	-	**(306)**
At 19 February 2017	**259**	**2,333**	**(411)**	**38**	**67,262**	**(90,586)**	**(21,105)**
Share based payment charge	-	-	-	(3)	-	-	**(3)**
Loss for the financial year	-	-	-	-	-	(14,424)	**(14,424)**
Issue of share capital	-	3,053	-	-	-	-	**3,053**
Capital contribution on forgiveness of debt	-	-	-	-	5,528	-	**5,528**
At 18 February 2018	**259**	**5,386**	**(411)**	**35**	**72,790**	**(105,010)**	**(26,951)**

Company	Called up share capital	Share premium account	Treasury shares	Share based payments	Capital contribution reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
At 21 February 2016	259	2,333	(105)	45	-	15	**2,547**
Share based payment charge	-	-	-	(23)	-	-	**(23)**
Profit for the financial year	-	-	-	-	-	99	**99**
Movement in Treasury shares	-	-	(306)	-	-	-	**(306)**
At 19 February 2017	**259**	**2,333**	**(411)**	**22**	**-**	**114**	**2,317**
Share based payment charge	-	-	-	13	-	-	**13**
Loss for the financial year	-	-	-	-	-	(191)	**(191)**
Issue of share capital	-	3,053	-	-	-	-	**3,053**
At 18 February 2018	**259**	**5,386**	**(411)**	**35**	**-**	**(77)**	**5,192**

Hobbycraft Group Limited

Group Cash Flow Statement for the 52 weeks ended 18 February 2018

	Note	2018 £'000	2017 (restated) £'000
Cash flow from operating activities			
Loss for the financial year		**(14,424)**	(14,452)
Adjustments for:			
Equity settled share-based payment income	20	**(3)**	(34)
Depreciation and amortisation	3	**10,539**	10,700
(Gain)/Loss on disposal of non-current assets	3	**(181)**	37
Interest income	6	**(36)**	(36)
Interest expense	7	**11,613**	11,800
Loss/(Gain) on hedging instruments	6, 7	**1,550**	(327)
Taxation expense	8	**(580)**	(321)
Decrease/(Increase) in inventories	12	**1,694**	(3,023)
Decrease/(Increase) in trade and other receivables	13	**628**	(1,503)
Increase in trade and other payables	14, 15	**265**	2,531
Cash generated from operations		**11,065**	5,372
Corporation tax paid		**(210)**	(848)
Net cash generated from operating activities		**10,855**	4,524
Cash flows from investing activities			
Finance costs paid	7	**(73)**	(187)
Purchase of intangible assets	9	**(461)**	(400)
Purchase of tangible assets	10	**(2,152)**	(2,389)
Proceeds from disposal of tangible assets		**302**	7
Net cash used in investing activities		**(2,384)**	(2,969)
Cash flows from financing activities			
Repayment of term loan		**(565)**	(1,257)
Repayment of Management "A" loan notes		**(5,954)**	-
Repayment of Investor "B" loan notes		**(4,243)**	-
Interest received	6	**36**	36
Realised (loss)/gain on hedging instruments	6, 7	**(371)**	327
Net cash used in financing activities		**(11,097)**	(894)
Net (decrease)/increase in cash and cash equivalents		**(2,626)**	661
Cash and cash equivalents at beginning of the financial year		**25,247**	24,586
Exchange loss on cash and cash equivalents		**(283)**	-
Cash and cash equivalents at end of the financial year		**22,338**	25,247
Cash and cash equivalents comprise:			
Cash at bank and in hand		**22,338**	25,247

The notes on pages 18 to 41 form part of these financial statements. For details of the restatement, refer to note 1.

Analysis of Net Debt

	At 19 February 2017	Cash flows	Non-cash changes	At 18 February 2018
	£'000	£'000	£'000	**£'000**
Cash and cash equivalents	**25,247**	(2,909)	-	**22,338**
Bank loans	**(565)**	565	-	**-**
Management "A" loan notes	**(6,917)**	5,954	963	**-**
Investor "B" loan notes	**(135,355)**	4,243	(433)	**(131,545)**
	(117,590)	7,853	530	**(109,207)**

Non-cash movements relating to Management "A" loan notes represent the net effect of interest accrued and interest waived in the period.

Non-cash movements relating to Investor "B" loan notes represent the net effect of interest accrued, interest waived and a debt/equity swap in the period.

For details of the loan note restructure, refer to note 15.

1 Accounting policies

Statement of compliance

Hobbycraft Group Limited is a private company limited by shares and registered in England. The Group's consolidated financial statements have been prepared 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 18 February 2018.

Basis of accounting

The Group financial statements have been prepared under the historical cost convention, consolidating the financial statements of Hobbycraft Group Limited and all its subsidiary undertakings drawn up for the 52 weeks to the end of each period.

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 the investee so as to obtain benefit from its activities

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

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.

Profit and Loss Account restatement

An adjustment has been made to the prior year Profit and Loss Account in order to reflect a change of accounting policy during the 52 weeks ended 18 February 2018.

In the prior year the Group recorded a gain from derivatives of £327k arising from forward foreign currency contracts settled during the period and a contract that was unrealised at the period end. It was the first time that the Group had experienced a material gain or loss from derivatives. The gain was recorded within cost of sales.

During the period ended 18 February 2018, the Group recorded a loss from derivatives of £1,550k arising from forward contracts settled during the period and contracts that were unrealised at the period end. The Group's accounting policy has been changed such that gains and losses from settlement of foreign exchange derivatives are now recorded within finance costs – refer to note 7.

The directors believe this policy means EBITDA better reflects the underlying trading performance.

The prior year comparatives have been restated to include the gain from derivatives within finance income – refer to note 6. This has the effect of increasing cost of sales by £327k and increasing finance income by £327k.

Critical accounting judgements and estimation uncertainty

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. Management do not consider there to be any critical accounting judgements.

Key accounting estimates and assumptions

The Group makes estimates 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 to the carrying amounts of assets and liabilities within the next financial year are addressed below.

The significant judgement areas and management's approach are as follows:

(a) Inventory provisions

Provision is made for stock shrink at stores incurred from the date of the last full count to the period end. Provisions are made on a store by store basis as a percentage of sales, based on shrink rates observed at previous full counts, adjusted if necessary to reflect any known change in circumstances.

Provisions are made for any reduction in net realisable value of inventories by identifying clearance and disposal lines where a reduction in selling price will be required to clear through the stock lines across the stores.

(b) Impairment of intangible assets and goodwill

The Group considers whether intangible assets and/or goodwill are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the cash generating units. This requires estimation of future cash flows and selection of appropriate discount rates to calculate their net present value.

(c) 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.

(d) Share based payments

The Group operated two share-based payment schemes during the period: the Hobbycraft Share Offer Plan and the Executive Scheme. Each scheme is equity settled, except in respect of leaver provisions. Management is required to exercise judgement in estimating the fair value of the shares, the likely timing of 'good' and 'bad' leavers, the vesting period, and the expectation of the date of change of control of the Group.

Revenue

Revenue, which excludes value added tax and discounts, comprises the value of sales of goods in the normal course of business. Revenue is recognised at the point at which the goods are paid for by the customer which, in respect of e-commerce sales, is upon despatch. Provision is made for returns.

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 revenue prior to redemption.

Finance income and finance costs

The main components of finance income and costs are gains and losses from forward foreign exchange contracts 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. The cost is the purchase price together with any incidental costs of acquisition.

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	4 - 20
Plant and machinery	10 - 33
Fixtures and fittings	10 - 33
Computer equipment	20 - 33

Leasehold improvements are depreciated over the life of the remaining term of the lease.

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.

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.

Intangible assets and amortisation

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight line basis over their estimated useful life. 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

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.

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 transport and appropriate handling costs, including those overheads incurred in bringing the product to its present location and condition. Provisions are made where necessary for obsolete, slow moving and defective stocks and shown net of cost.

Provision policy

Provisions are recognised when the Group has a present 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

At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease, based on the substance of the arrangement.

a) Operating lease assets

   Leases that do not transfer all risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the Profit and Loss Account on a straight-line basis over the period of the lease.

b) Lease incentives

   Incentives received to enter into an operating lease are credited to the Profit and Loss Account to reduce the lease expense on a straight-line basis over the period of the lease 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.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at an average rate and adjustments are made when there is significant movement. Exchange gains and losses are recognised in the Profit and Loss Account.

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, 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.

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.

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.

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. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

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.

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.

Share based payments

The Group operates two share based payment schemes: the Hobbycraft Share Offer Plan and the Executive Scheme. Each scheme is equity settled, except in respect of leaver provisions. A charge is recognised in the Profit and Loss Account in reference to the fair value at the date at which the shares are granted. The fair value of shares is measured using a Black-Scholes model. The charge in respect of awards granted is spread over the vesting period, which reflects management's expectation of the date of change of control of the Group.

The Group would provide for the expected cost of "good leavers" to be cash settled by estimating at each balance sheet date the likely number of good leavers until the date when vesting conditions are met. The number of shares that would vest under the good leaver provision would be pro-rated to take into account the length of the holding period since the date of the grant and this pro-rated amount would then be cash settled. A provision would be created on the balance sheet and a corresponding charge made to the Profit and Loss Account. Good leavers could arise from redundancy, disability, injury or death.

A shareholder is deemed to be a "bad leaver" in circumstances where the person ceases to be a relevant employee by reason of resignation, termination of employment or where the person has breached any post-termination restriction. Bad leavers may be entitled to a cash payment equal to the lower of the fair value and the issue price.

Going concern

The Group's forecasts and projections, taking account of reasonable variations in trading performance, show that the Group will be able to operate within the level of its current cash balances and working capital facility for both working capital and capital investments in the foreseeable future. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

2 Revenue

Revenue represents the amounts derived from the provision of goods and services 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 almost 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.

3 Operating loss

Other operating expenses excluding depreciation, amortisation and exceptional items are made up as follows:

	2018	2017
	£'000	£'000
Distribution costs	**35,156**	33,203
Administrative expenses	**47,929**	45,334
	83,085	78,537

In addition to the other operating expenses for the period are the following exceptional items:

	2018	2017
	£'000	£'000
People costs (including re-structuring costs)	**1,110**	-
Total non-recurring costs	**1,110**	-

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

	2018	2017 (restated)
	£'000	£'000
Loss before taxation is stated after (crediting)/charging:		
(Gain)/Loss on disposal of tangible assets	**(181)**	37
Depreciation of tangible assets	**4,972**	4,913
Amortisation of intangible assets	**5,567**	5,787
Fees payable to the Group's auditors for the audit of the Group's financial statements	**33**	33
Fees payable to the Group's auditors for the audit of the Company's subsidiaries	**59**	50
Fees payable to the Group's auditors for tax compliance	**18**	18
Fees payable to the Group's auditors for tax advisory services	**63**	23
Fees payable to the Group's auditors for other services	**5**	-
Operating leases - plant and machinery	**286**	268
Operating leases - other	**21,135**	20,433
Loss/(Gain) on foreign exchange forward contracts	**1,550**	(327)
Other exchange loss	**107**	784
Inventory recognised as an expense	**76,386**	72,817

For details of the restatement, refer to note 1.

4 Employees

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

	2018	2017
	Number	Number
Selling and distribution	**1,082**	1,076
Administration	**123**	114
	1,205	1,190

The average monthly number of persons employed by the Company was four (2017: four).

Staff costs (for the above persons including directors):

	2018	2017
	£'000	£'000
Wages and salaries	**28,963**	25,823
Social security costs	**1,948**	1,817
Other pension costs (see note 19)	**340**	333
Share-based payments	**(3)**	(34)
Total direct costs of employment	**31,248**	27,939

In addition to the above, costs relating to temporary and contract staff totalled £2,139k (2017: £2,572k).

5 Directors' emoluments

	2018	2017
	£'000	£'000
Emoluments (including benefits in kind)	**572**	581
Compensation for loss of office including payment in lieu of notice	**563**	-
Pension contributions to money purchase schemes	**25**	33
	1,160	614

As at the period end date, three (2017: four) directors held shares under a long term incentive plan.

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

	2018	2017
	£'000	£'000
Emoluments (including benefits in kind)	**135**	289
Compensation for loss of office including payment in lieu of notice	**406**	-
Pension contributions to money purchase schemes	**6**	16
	547	305

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

During the period benefits were accruing to three (2017: two) directors under defined contribution schemes.

Remuneration of key management and directors:

	2018	2017
	£'000	£'000
Emoluments (including benefits in kind)	**1,120**	1,221
Compensation for loss of office including payment in lieu of notice	**725**	-
Pension contributions to money purchase schemes	**53**	61
	1,898	1,282

6 Finance income

	2018	2017 (restated)
	£'000	£'000
Interest receivable on bank deposits	**36**	36
Gain on derivative financial instruments	**-**	327
	36	363

For details of the restatement, refer to note 1.

7 Finance costs

	2018	2017
	£'000	£'000
Interest payable on overdrafts and bank loans	**73**	187
Other loans	**11,257**	11,613
Loss on derivative financial instruments	**1,550**	-
Exchange loss on cash and cash equivalents	**283**	-
	13,163	11,800

Interest payable on other loans is not cash interest and relates to the interest accruing on loan notes. Interest accrued at 10% per annum on the Management "A" loan notes until their extinguishment on 21 December 2017. The interest rate on the Investor "B" 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 to 7.09% with effect from the 31 August 2017 (2017: 8.88%).

8 Tax on loss

	2018	2017
	£'000	£'000
Current tax:		
UK corporation tax on losses for the period	**109**	-
Adjustments in respect of previous periods	**-**	82
	109	82
Deferred tax:		
Origination and reversal of timing difference	**(764)**	(375)
Adjustments in respect of previous periods	**(9)**	(86)
Effect of changes in tax rates	**84**	58
	(689)	(403)
Total tax on loss	**(580)**	(321)

The tax assessed for the period is lower (2017: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2018	2017
	£'000	£'000
Loss before taxation	**(15,004)**	(14,773)
Loss before taxation multiplied by standard rate of corporation tax in the UK of 19.11% (2017: 20.00%)	**(2,867)**	(2,954)
Effects of:		
Expenses not deductible for tax purposes	**2,647**	2,543
Effects of gains covered by s171A (including rollover reliefs)	**49**	-
Income not taxable	**(35)**	(6)
Deferred tax not recognised	**(2)**	42
Adjustments in respect of previous periods	**(456)**	(4)
Re-measurement of deferred tax – change in UK tax rate	**84**	58
Total tax credit for the period	**(580)**	(321)

The Finance (No. 2) Act 2015 was substantively enacted on 26 October 2015 and reduced the main rate of corporation tax in the UK to 19% from 1 April 2017. Finance Act 2016 was substantively enacted on 6 September 2016 and reduced the main rate of corporation tax in the UK to 17% with effect from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

9 Intangible assets

	Goodwill	Computer software	Total
	£'000	£'000	£'000
Cost			
At 19/02/2017	96,458	5,158	101,616
Additions	-	461	461
Disposals	-	(1,914)	(1,914)
At 18/02/2018	**96,458**	**3,705**	**100,163**
Accumulated amortisation			
At 19/02/2017	32,852	4,125	36,977
Charge for the period	4,806	761	5,567
Disposals	-	(1,909)	(1,909)
At 18/02/2018	**37,658**	**2,977**	**40,635**
Net book value			
At 18/02/2018	**58,800**	**728**	**59,528**
At 19/02/2017	63,606	1,033	64,639

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

The Company has no intangible fixed assets (2017: none).

10 Tangible assets

	Leasehold improvements	Plant and machinery	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 19/02/2017	33,765	2,565	2,476	13,075	51,881
Additions	222	107	297	1,526	2,152
Disposals	(177)	(51)	(334)	(77)	(639)
At 18/02/2018	**33,810**	**2,621**	**2,439**	**14,524**	**53,394**
Accumulated depreciation					
At 19/02/2017	13,996	2,104	2,160	6,559	24,819
Charge for the period	2,401	259	222	2,090	4,972
Disposals	(63)	(50)	(334)	(71)	(518)
At 18/02/2018	**16,334**	**2,313**	**2,048**	**8,578**	**29,273**
Net book value					
At 18/02/2018	**17,476**	**308**	**391**	**5,946**	**24,121**
At 19/02/2017	19,769	461	316	6,516	27,062

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

The Company has no tangible fixed assets (2017: none).

11 Investments

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

	Group companies £'000
At 19/02/2017	1,384
Waiver of amount owed by Stitch 2 Limited	3,053
Share based payment charges in respect of subsidiary employees	15
At 18/02/2018	**4,452**

The Company has the following subsidiaries:

Subsidiary undertaking	% Ownership of ordinary shares	Country of incorporation	Principal activities
Held directly by the Company:			
Stitch 2 Limited	100	UK	Holding company
Held indirectly:			
Stitch 3 Limited	100	UK	Holding company
Stitch Bidco Limited	100	UK	Holding company
Hobbycraft Trading Limited	100	UK	Retail
Hobbycraft Superstores Limited	100	UK	Dormant

The dormant subsidiary (Hobbycraft Superstores Limited) is exempt from preparing and filing individual financial statements by virtue of s394A and s448A of the Companies Act 2006. The directors believe that the carrying value of the investments is supported by their underlying net assets.

The registered office of all subsidiary undertakings is:

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

12 Inventories

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Goods for resale	**27,396**	29,090	**-**	-

There is no significant difference between the replacement cost of the inventory and its carrying amount.

13 Debtors

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Trade debtors	**161**	546	**-**	-
Amounts owed by Group undertakings	**-**	-	**1,808**	2,155
Other debtors	**604**	611	**36**	36
Corporation tax	**425**	324	**-**	-
Deferred tax (see note 18)	**1,043**	354	**-**	-
Prepayments and accrued income	**4,693**	4,929	**-**	-
	6,926	6,764	**1,844**	2,191

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

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

14 Creditor amounts falling due within one year

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Bank loans and overdrafts	**-**	565	**-**	-
Trade creditors	**13,401**	13,759	**-**	-
Amounts owed to Group undertakings	**-**	-	**709**	685
Taxation and social security	**4,435**	4,182	**-**	-
Other creditors	**7,686**	4,637	**-**	-
Derivative financial liabilities	**1,178**	-	**-**	-
Accruals and deferred income	**3,653**	3,688	**2**	-
	30,353	26,831	**711**	685

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

15 Creditor amounts falling due after more than one year

	Group	Group	**Company**	Company
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Investor "B" loan notes	**131,545**	135,355	**-**	-
Management "A" loan notes	**-**	6,917	**-**	-
Accruals and deferred income	**5,322**	4,764	**393**	573
	136,867	147,036	**393**	573

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 the start of the year there was a £5.0m capital expenditure facility in place, provided by Lloyds Bank plc. It was available for utilisation until 2 May 2015 with an interest rate of base rate + 3.5% and was fully repaid on 2 May 2017 upon expiry.

The Group has access to a £6.0m working capital facility provided by Lloyds, including a £2.0m *revolving facility with an interest rate of base rate + 3%. At 18 February 2018 £6.0m of the working* capital facility was unutilised (2017: £6.0m). The facility was due to expire on 3 May 2018 but was extended on 26 March 2018 until 3 May 2019 under the same terms. Lloyds have a floating charge debenture over the assets of Stitch Bidco Limited, a Group company. In the event of a liquidation of that company, Lloyds will receive priority over unsecured creditors in the repayment of any amounts owed by the company to Lloyds.

Catriona Marshall, a director of the Company who resigned on 30 June 2017, transferred her holdings of Management "A" and Investor "B" loan notes to the majority shareholder on 16 June 2017. All *accrued interest was waived, which gave rise to an increase in the capital contribution reserve of* £562k within the consolidated financial statements of the Group.

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 to 7.09% with effect from the 31 August 2017 (2017: 8.88%). At 18 February 2018 the rolled up interest included in the unsecured Investor loan notes was £21,808k (2017: £13,404k).

On 21 December 2017 the Management loan note instrument was extinguished after repayments were made to all remaining loan note holders and accrued interest was waived. On the same date, certain Investor loan note holders were repaid after agreeing to a waiver of accrued interest as well as an exchange of loan note principal for equity in Hobbycraft Group Limited. The interest waivers relating to both instruments caused an increase in the Group's capital contribution reserve of £4,966k.

15 Creditor amounts falling due after more than one year (continued)

Maturity of debt

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

	Group 2018 £'000	Group 2017 £'000	**Company 2018 £'000**	Company 2017 £'000
In less than one year	**-**	565	**-**	-
In more than one year but less than two years	**-**	-	**-**	-
In more than two years but less than five years	**-**	142,272	**-**	-
In more than five years	**131,545**	-	**-**	-
	131,545	142,837	**-**	-

16 Financial instruments

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

	Group 2018 £'000	Group 2017 £'000	**Company 2018 £'000**	Company 2017 £'000
Financial assets measured at amortised cost	**3,376**	3,362	**1,840**	2,191
Financial liabilities measured at amortised cost	**157,180**	163,972	**1,104**	1,258

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 18 February 2018, there were ten outstanding contracts (2017: one outstanding contract) maturing within 12 months of the period end. The Group was committed to buy $24,500k and €500k for a fixed Sterling amount. The unrealised loss on these instruments was £1,178k.

The Company has no derivative financial instruments (2017: none).

17 Provisions for liabilities

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

	Dilapidations provision £'000
At 19 February 2017 and 18 February 2018	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 (2017: nil).

18 Deferred tax

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

	2018	2017
	£'000	£'000
Accelerated capital allowances	**487**	340
Short term timing differences	**556**	14
	1,043	354

The movement on the deferred tax asset is as follows:

	£'000
At 19 February 2017	354
Deferred tax credit in Profit and Loss Account for the period	680
Adjustments in respect of previous periods	9
At 18 February 2018	**1,043**

The Company has no provisions for deferred tax.

A deferred tax asset of £86k (2017: £492k) 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 three directors (2017: three) 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 £340k (2017: £333k).

Contributions totalling £49k (2017: £49k) were payable at the period end and are included in creditors.

20 Share based payments

Hobbycraft Group Limited operated two schemes during the period. These schemes are the Executive Scheme and the Hobbycraft Share Offer Plan. Each scheme is equity settled.

All of the shares held were issued at market value. A charge is 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 is spread over the vesting period, which reflects management's expectation of the date of change of control of the Group. The Profit and Loss Account is also charged with the change in expected cost relating to the estimate at the balance sheet date of the number of leavers likely to arise before any change in control of the Group. These charges to the Profit and Loss Account are recognised in equity in the share-based payments reserve.

The weighted average fair value of the shares under the schemes was calculated at the date of grant using the Black-Scholes option pricing model. Expected share price volatility was determined through the assessment of the historical volatility of a comparable group of companies over a period consistent with the expected life of the 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. The inputs into the model are shown within each scheme's disclosure.

Executive Scheme

The shares disclosed in the table below are "A" ordinary shares:

	Group 2018 Number of shares '000s	Group 2017 Number of shares '000s	**Company 2018 Number of shares '000s**	Company 2017 Number of shares '000s
Brought forward	**305,000**	305,000	**185,000**	185,000
Granted in the period	**-**	-	**-**	-
Forfeited in the period	**(160,000)**	-	**(120,000)**	-
Carried forward	**145,000**	305,000	**65,000**	185,000

There were no shares granted in the current or prior periods.

20 Share based payments (continued)

Hobbycraft Share Offer Plan

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

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
	2018	**2018**	**2018**	**2018**	2017	2017	2017	2017
Brought forward	**22,000**	**83,000**	**305,000**	**410,000**	10,000	95,000	-	105,000
Sold in the period	**-**	**-**	**(160,000)**	**(160,000)**	-	-	-	-
Purchased in the period	**160,000**	**-**	**-**	**160,000**	-	-	-	-
Transfers to/from beneficial owners	**20,000**	**(20,000)**	**-**	**-**	12,000	(12,000)	-	-
Shares in issue at 21/2/16 but not unconditionally vested (see below)	**-**	**-**	**-**	**-**	-	-	305,000	305,000
Total	**202,000**	**63,000**	**145,000**	**410,000**	22,000	83,000	305,000	410,000

Included in the share movement table above are 145,000,000 (2017: 305,000,000) shares under the legal and beneficial ownership of management, that were issued in previous years and had been considered to have unconditionally vested under the rules of the scheme. As such, these shares were not included in the treasury share balance in previous years.

20 Share based payments (continued)

There were no shares granted in the current period. The following table lists the inputs to the model for shares granted in the prior period.

Date of grant	01/02/17
Weighted average share price	0.1p
Exercise price	0.1p
Expected volatility (%)	30.28%
Expected life (years)	3
Dividend yield (%)	0.00%
Risk-free interest rate (%)	0.70%

The weighted average share price for the grants throughout the periods and at the end of the period was 0.1p (2017: 0.1p).

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:

	2018	2017
	£'000	£'000
Equity settled share based payment credit	**3**	34

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

The Group would provide for the expected cost of "good leavers" to be cash settled by estimating at each balance sheet date the likely number of good leavers until the date when vesting conditions are met. The number of shares that would vest under the good leaver provision would be pro-rated to take into account the length of the holding period since the date of the grant and this pro-rated amount would then be cash settled. A provision would be created on the balance sheet and a corresponding charge made to the Profit and Loss Account. Good leavers could arise from redundancy, disability, injury or death.

At the balance sheet date, the provision for good leavers was £nil (2017: £nil).

21 Called up share capital

	Group and Company 2018 £'000	Group and Company 2017 £'000
Authorised, allotted and fully paid		
410,008,500 (2017: 410,000,000) "A" ordinary shares of 0.01p each	**41**	41
1,590,000,200 (2017: 1,590,000,200) "B" ordinary shares of 0.01p each	**159**	159
591,913,054 (2017: 591,913,054) deferred shares of 0.01p each	**59**	59
	259	259

On 21 December 2017 a total of 8,500 "A" ordinary shares were allotted to six members of the Haskins family, all existing "B" shareholders, in exchange for Investor "B" loan notes totalling £3,053k in Stitch 2 Limited, a directly held subsidiary.

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 (*2017: nil*).

22 Commitments under operating leases

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

Payment due:	Land and buildings 2018 £'000	Other 2018 £'000	Total 2018 £'000	Land and buildings 2017 £'000	Other 2017 £'000	Total 2017 £'000
Not later than 1 year	**21,929**	**98**	**22,027**	21,201	106	21,307
Later than 1 year and not later than 5 years	**75,654**	**37**	**75,691**	77,434	62	77,496
Later than 5 years	**31,350**	**-**	**31,350**	37,796	-	37,796
Total	**128,933**	**135**	**129,068**	136,431	168	136,599

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

23 Capital commitments

At 18 February 2018 the Group and Company had no capital commitments (2017: nil).

24 Contingent liabilities

At 18 February 2018 the Group and Company had no contingent liabilities (2017: nil).

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 IV Private Equity Fund, held the following loan notes in Stitch 2 Limited at the period end:

	2018	2017
	£'000	£'000
Unsecured subordinated redeemable Management "A" loan notes (including rolled up interest)	**-**	1,025
Unsecured subordinated redeemable Investor "B" loan notes (including rolled up interest)	**130,841**	119,488

Catriona Marshall, a director of the Company who resigned on 30 June 2017, transferred her holdings of Management "A" loan notes totalling £541k and Investor "B" loan notes totalling £1,495k to Bridgepoint on 16 June 2017 after waiving all accrued interest. On 21 December 2017 the Management loan note instrument was extinguished after repayments were made to all remaining loan note holders. A payment of £1,678k was made to Bridgepoint which included £597k of accrued interest.

Monitoring fees of £150k (2017: £150k) payable to Bridgepoint Advisers Limited were charged to the Profit and Loss Account in the 52 weeks ended 18 February 2018.

Transactions with directors and key management

Catriona Marshall (resigned 30 June 2017) transferred her holdings of loan notes to Bridgepoint, as detailed within *Transactions with Private Equity investors* above.

25 Related party transactions (continued)

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.

Along with his dependents, Warren Haskins held £12,214k of Investor "B" loan notes (including rolled up interest) in Stitch 2 Limited at the start of the period and £nil at the end of the period following a restructure on 21 December 2017. On that date the family was paid a total of £5,954k and a further payment of £3,207k is due in October 2018. £950k of accrued interest was waived and 8,500 'A' shares were issued by Hobbycraft Group Limited in exchange for the remaining value of the loan notes.

Haskins Garden Centres Limited charged Hobbycraft Trading Limited £555k (2017: £556k) in the period in property rentals and overhead recharges.

At 18 February 2018 £25k (2017: £22k) was due to Haskins Garden Centres Limited.

At 18 February 2018 £145k (2017: £66k) was due to Inspired Thinking Group, which is ultimately owned by Bridgepoint. During the period, Hobbycraft Trading Limited made payments of £893k (2017: £880k) to Inspired Thinking Group.

At 18 February 2018 £nil (2017: £nil) was due to Estera Trust (Jersey) Limited, which is ultimately owned by Bridgepoint. During the period Hobbycraft Trading Limited made payments of £14k (2017: £8k) to Estera Trust (Jersey) Limited.

The Group enters into forward foreign currency contracts to mitigate the exchange rate risk for foreign currency purchases. During the period, the Group committed to buy $20,000k for a fixed Sterling amount from Moneycorp, a company ultimately owned by Bridgepoint. This included $12,500k of contracts that had not been settled at 18 February 2018.

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 the Bridgepoint Europe IV Private Equity Fund, which is in turn managed by Bridgepoint Advisers Limited.