20 July 2021

TheWorks.co.uk plc

("The Works", the "Company" or the "Group")

Preliminary results for the 53 weeks ended 2 May 2021

"Despite the significant challenges posed by the COVID-19 pandemic, The Works has delivered a resilient performance and emerged a stronger business."

TheWorks.co.uk plc the multi-channel value retailer of arts, crafts, toys, books and stationery, announces its preliminary results for the 53 weeks ended 2 May 2021 (the "Period" or "FY21").

Financial highlights

- Total revenue decreased by 19.7 per cent to £180.7 million (FY20: £225.0 million) due to pandemic-related temporary store closures. Encouragingly, despite the impact of the pandemic, store LFL sales[2] grew by 6.0% when trading and online sales grew by 120.9% compared with FY20.
- The pre IFRS 16 Adjusted EBITDA was £4.3m (FY20: £10.8m), which was in-line with the Group's original internal forecast.
- The statutory loss before tax was £2.8m (FY20: loss of £18.0m). The net effect of Adjusting items in FY21 was much smaller than in FY20 which included Adjusting items of £20.4m relating principally to non-cash impairment charges.
- Generated £7.9m net cash resulting in a stronger balance sheet at the Period end, with £0.8m net cash (excluding leases) compared with £7.1m net bank debt at the end of FY20.

	FY21 **£m**	**FY20** **£m**
Revenue	180.7	225.0
Revenue (decline)/growth	(19.7%)	3.5%
Pre-IFRS16 Adjusted[1] EBITDA	4.3	10.8
PBT	(2.8)	(18.0)
Adjusted[1] PBT	(3.6)	2.4
Basic EPS (pence)	(3.7)	(28.3)
Adjusted[1] basic EPS (pence)	(4.9)	3.0
Net bank cash/(debt)	0.8	(7.1)
IFRS16 impact on PBT	(0.2)	(3.7)
Adjusting items before tax excluded from Adjusted[1] results	0.8	(20.4)

Operational highlights

- The broad appeal of The Works' proposition and the loyalty of its customers were demonstrated by strong sales performance when stores were able to trade, and throughout the period online.
- Core arts and crafts ranges, books and jigsaws were popular throughout the year, as families sought to entertain their children, and people looked for new activities. As the year progressed, demand grew for products to support mental health and wellbeing, such as adult colouring books and puzzle books.
- Our online store catered for unprecedented demand when our stores were closed, contributing to a step change in its profitability - repaying the investment we made to provide increased fulfilment capacity and a new more robust web platform.
- We continued the process that had begun pre-pandemic to evolve our strategy - including de-emphasising new store openings in favour of profitable digital growth and driving improvements through the existing store estate.

- As a result of the refocused strategy, quick action to invest online when the pandemic hit and careful cost management, The Works has ended the year in a strong financial position, with no net bank borrowings and operationally stronger than before the pandemic.
- We delivered our highest ever colleague engagement score, demonstrating how our colleagues have pulled together during the pandemic.

Trading update for the 11 weeks ended 18 July 2021

- We are pleased with the performance since the beginning of the new financial year, which is ahead of our internal plan.
- On a 2 year LFL basis, i.e. comparing FY22 sales with the corresponding weeks at the beginning of FY20, LFL sales for the 11 weeks have grown by 13.0%. (Sales comparisons with FY21 are not quoted, as most of our stores were closed for seven weeks of the comparative period.)
- Online and store LFLs are both positive, with online sales levels approximately double the FY20 comparisons.
- Sales are being driven by growth in categories including jigsaws and art and craft, which have been popular throughout the pandemic. In addition, progress against strategic objectives is starting to bear fruit, for example through improved availability and in store merchandising of core stock.
- The outcome for FY22 will be heavily influenced by the strength of sales in the important months of November and December but, overall, the positive start to trading in the new financial year positions the Company well for the full year.
- We are carefully monitoring the situation in the global freight system although, at present, the higher costs per container are covered by our forecasts.

Board Changes

As announced separately this morning, following seven years' involvement with The Works, Dean Hoyle has decided to step down as Chairman after the AGM on 30 September and will be replaced by Carolyn Bradley, who will join the Board as Chair, on the same date.

Gavin Peck, Chief Executive Officer of The Works, commented:

"It has been an intensely challenging year due to the COVID-19 pandemic but, because of our quick action, careful cost management and 'can-do' culture, The Works has emerged as a stronger business. Whilst we couldn't control temporary store closures, we focused on the things we could control, such as improving operations, managing costs carefully and continuing to invest in our online offer.

"I'd like to thank all our colleagues who supported the business, and each other, throughout the pandemic and whilst stores were temporarily closed. I'm immensely proud of how we've all come together as a team; it's an example of what makes The Works such a great business.

"If, at the beginning of FY21, we had known that our shops would be closed for nearly six months of the year, we would not have expected to achieve this resilient performance. The foundations we laid before the pandemic helped us to navigate the year much more successfully. We had already begun to de-emphasise store openings in favour of accelerating profitable digital growth, and driving improvements through the existing store estate, with the aim of being not just a bigger version of ourselves, but a better version.

"The net result is that we have ended the year in a strong financial position, with no bank borrowings and are much more effective operationally than we were before the pandemic. We are now even better prepared to execute our refocused strategy and are confident in the future prospects of the business."

Preliminary results presentation

A presentation for analysts will be held today at 9.30am via video conference call. A copy of the presentation will shortly be made available on the Company's website (www.theworksplc.co.uk/investors).

TheWorks.co.uk

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[1] Adjusted profit figures exclude Adjusting items. See Note 4 of the extracts from the financial statements for further details.

[2] LFL sales are normally defined by the Group as the year-on-year growth in gross sales from stores which have been opened for a full 63 weeks (but excluding sales from stores closed for all or part of the relevant period or prior year comparable period), and from the Company's online store, calculated on a calendar week basis. Store LFL sales for FY21 are for the 53 weeks ended 2 May 2021, excluding periods when stores were required to be closed to comply with COVID-19 restrictions on trading. Online LFL sales are for the entire 53 week period, including when the stores were closed. For individual LFL figures, which are more meaningful in relation to FY21, please refer to the Revenue section of the Financial Report.

This announcement contains information which, prior to its disclosure, was inside information as stipulated under Regulation 11 of the Market Abuse (Amendment) (EU Exit) Regulations 2019/310 (as amended).

The financial information set out in this statement does not constitute the Company's statutory accounts for the periods ended 2 May 2021 or 26 April 2020, but is derived from those accounts. Statutory accounts for FY20 have been delivered to the Registrar of Companies and those for FY21 will be delivered in due course. The auditor has reported on those accounts: their reports were (i) unqualified and (ii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The audit of the statutory accounts for the Period is now complete. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRS") this announcement does not itself contain sufficient information to comply with IFRS.

Chairman's statement

A separate announcement has been issued today noting my intention to stand down as Chairman at the forthcoming Annual General Meeting. Since I joined The Works as Chairman, the business has undergone a significant transformation. I am extremely proud of what has been achieved, such as the IPO, and opening our 500th store but, more importantly, I am pleased with the journey The Works has been on more recently to make it a more agile and modern version of the business that our customers have always known and loved. This is reinforced by the unique culture, which was recognised again by Best Companies as being the 13th "Best Big Company to Work For" in 2021. I am certain that this unique culture played a crucial role in bringing our business through the challenges of the last year; I am pleased now to leave the business in capable hands, emerging strongly from COVID and well-positioned for future growth.

The last year has been dominated by the COVID-19 pandemic, which has impacted our business, our employees and the communities in which we operate, in ways previously unimaginable. The challenges created by the pandemic have been felt particularly by businesses like The Works that have historically relied almost entirely on in-store sales. However, it has encouraged us to adapt, to become more efficient and to accelerate our existing plans to grow our multi-channel offering.

The pandemic has also put our purpose into sharper focus with all colleagues initially focused on one thing – getting our business and each other through the pandemic. Now that our stores have all reopened and the UK seems to be progressing towards recovery, we have been able to shift our collective energy into a new purpose, one that links our 'can do' people with our customers; *people who do, inspiring people to do.* This clarity about why we exist, has already played a big part in our recovery and will continue to do so as our business and the wider market return to full strength.

Before I cover the detail of my report, I want to take this opportunity to offer my sincere thanks to every colleague at The Works for their support over the last seven years, their continuing hard work and, perhaps, most of all, their spirit, in facing the challenges and working through the issues of the last year. It is customary to give such recognition in these statements but, in relation to FY21, it is particularly appropriate.

Trading

Our ability to operate was severely restricted by the government enforced, temporary, store closures across the UK and Republic of Ireland for a significant proportion of the year, which has had an inevitable impact on our financial performance. Total revenue declined significantly as a result of these temporary store closures, however our LFL sales performance tells an entirely different story. The swift action taken by the business to adapt, the ongoing investment in our online offering and the loyalty of our customers meant that our LFL sales performance was good in the weeks when stores were able to trade and was excellent online, more than double the previous year. Overall, it is pleasing to see that despite the significant level of uncertainty prevailing at this time last year, The Works delivered a performance that is broadly in line with what we planned for at the beginning of FY21, although not in the way we originally expected. This gives us confidence as to the relevance of our proposition, even in the most challenging of years.

Leadership

This resilient performance would not have been possible without the steadfast leadership team who have worked tirelessly during the pandemic to protect colleagues, customers and the business. They had already started the process of refining the strategy before the pandemic, which meant that, despite the significant uncertainty, their focus remained on things within their control, including taking swift action to reduce costs and increasing online capacity, all whilst keeping the wellbeing of colleagues and customers front of mind. It is no easy feat being thrust into a pandemic only a few months after becoming CEO, but Gavin Peck rose to the occasion and with the support of his leadership team the business has emerged in a position of strength. I am confident that under his leadership and with the support and guidance of the new Chair, Carolyn Bradley, The Works will go from strength to strength.

During the pandemic the leadership team also launched new company values based on the concept of "*people who do",* which are closely aligned with the Company's new purpose. People who work at The

Works have always been *crafty, caring,* with a *can-do* attitude and we now have a codified set of values that are led from the very top. These values have already, and will continue to, define how the business operates, guide colleagues in the way that they serve customers and care for one another.

Outlook

The business we operate today has evolved considerably from the one I joined almost seven years ago. Our key strengths – our brand and culture – have remained the same, but our scale and our proposition have evolved significantly. The journey to make us a more agile and modern version of the business that our customers know and love is well underway.

I sincerely hope that we are all past the worst of what has been an incredibly challenging year, but our business will continue to feel some of the impacts of the pandemic in the year ahead. Although we are in a strong financial position our priority will be to continue strengthening the balance sheet before resuming the payment of dividends. The Board remains committed to resuming dividend payments to shareholders in the medium term, and currently plans to review the position in January 2023, based on Christmas 2022 trading performance, with a view to potentially resuming the payment of dividends at that time.

Trading since our stores reopened has been strong and we expect this early progress to continue, driven by our refocused strategy that puts customer needs at the heart of everything we do. This, together with the ongoing appeal of The Works' proposition, the resilience demonstrated during the pandemic and the investment made to make The Works a more agile and modern business, gives the Board confidence in its future prospects. I strongly believe that The Works has exciting growth opportunities ahead and remain fully supportive of this business, its leadership team and all of its incredible colleagues.

Dean Hoyle
Chairman
20 July 2021

Chief Executive's Report

Introduction

It has been an intensely challenging year but, because of our quick action, careful cost management and 'can-do' culture, The Works has emerged as a stronger business. I would like to start by thanking all our colleagues who supported the business, and each other, throughout the pandemic and during store closures. I am immensely proud of how we have all come together as a team. Having learned lessons from the pandemic, we are now even better prepared to execute our refocused strategy, described below, and are confident in the future prospects of the business.

Trading performance and financial results

As expected, given that all our stores were temporarily closed for a significant proportion of the year during the lockdown periods, our sales were down 19.7 per cent on the previous year. We did see phenomenal growth in our online business (up 120.9 per cent. on a LFL basis), as customers migrated online, and we delivered a good performance in-store when we were able to trade, up 6.0 per cent. on a LFL basis. Although online now comprises a larger proportion of our sales (c.20 per cent. vs. c.10 per cent. pre-COVID), the balance is still heavily weighted towards stores, which meant that growth online did not offset the loss in sales whilst our stores were temporarily closed.

The last year has demonstrated the relevance of our proposition to a range of customers across the UK and Republic of Ireland and through each phase of the pandemic. We collated a number of our products into our successful "Boredom busters" proposition, which had great appeal to customers of all ages during periods of lockdown. We also saw strong demand for our core arts and crafts ranges, books and jigsaws, throughout the year, as families have sought to entertain their kids, and people have looked for new activities. As the year progressed, we also saw increased demand for products to support mental health and wellbeing, such as adult colouring books and puzzle books. Encouragingly, we are continuing to see strong demand for these products since lockdowns have lifted, suggesting that new customers made The Works their go-to destination for products to entertain, and existing customers also discovered newfound hobbies and interests.

Whilst we couldn't control store closures, we focused on the things we could; improving operations, careful cost management and investment in our online offer. If, at the beginning of FY21, we had known that our shops would be closed for nearly 6 months of the year, we could not have imagined delivering the resilient performance that we did. In the end, the FY21 result was in line with our original "COVID-19" budget although we arrived there via a very different path, with much longer periods of enforced store closures but stronger sales performance online and in our stores when we were able to trade.

The pre IFRS 16 Adjusted EBITDA for the year was £4.3m (FY20: £10.8m). Given the considerable challenges, I believe this was a good result and, as noted above, it was in line with our internal expectation set at the beginning of the year when the pandemic was in its early stages.

The statutory loss before tax was £2.8m (FY20: £18.0m loss). The significant reduction in the size of the statutory loss before tax compared with the prior year is primarily because, in contrast to FY20, there was no requirement to book any additional impairment charges during FY21.

The foundations we laid before the pandemic helped us to navigate the year much more successfully. We had already begun the evolution of our strategy, to de-emphasise store rollouts in favour of accelerating digital growth, and driving improvements through the existing store estate, with the aim of being not just a bigger version of ourselves, but a better version of ourselves. Despite the pandemic, we have already begun to implement key building blocks for this strategy such as strengthening our Supply Chain and IT teams and kick-starting a project to review our end-to-end stock management systems and processes, with an initial focus on our import and replenishment systems.

The net result is that we have ended the year in a strong financial position with no borrowings (non IFRS 16 basis) and are much stronger operationally than we were before the pandemic. I believe we are therefore well positioned to benefit with our multi-channel offering as pandemic related restrictions continue to be removed.

Evolving our strategy – Being Better, Not Just Bigger

As I set out last year, our strategy has evolved, and the thinking behind this was well underway before the pandemic. The elements that make our business strong and differentiate us – like our brand and culture – did not need to change but, as part of our plan, we will reinforce them, through increased focus and clarity of purpose. Areas where we can improve and evolve our proposition include, for example, focusing on availability of core lines that drive repeat purchases, and developing coherent and complementary online range extensions in our key product categories, offering customers more choice. We will continue to offer our customers fantastic value for money and launch hundreds of new lines every week, supporting the "discovery" element of what customers love about us.

The requirement to divert significant resources to successfully manage the response to the COVID-19 pandemic did hinder the pace of roll-out of the new strategy but it also provided us the opportunity to fine tune it and strengthen the team to execute it. In fact, we learnt a lot during the pandemic and the temporary closure of our stores, which helped us hone our thinking. As we move forwards, our future growth strategy will be based on the following key pillars.

We will continue to **develop our brand and increase our customer engagement**. Seeing how our colleagues carried us through this pandemic and how many new customers were attracted to our brand confirmed to us that we must continue to invest in engaging colleagues and customers, which is why we launched our new purpose and values across the whole business. There are still too many people who do not know who we are and what we do. By focussing on fulfilling our new purpose, delivering a product offering aligned to this and developing marketing plans that clearly communicate the key differentiators of our brand, we will inspire more people to discover us, and existing customers to increase their loyalty to us. This will be underpinned by better customer insight and analysis, along with better leveraging our "together" loyalty scheme.

We will **enhance our online proposition** which will be focused on bringing new customers to the brand and offering our existing customers a broader product base, complementary to the ranges we already offer, that is not constrained by the size of our stores. We attracted many new customers to our website during the pandemic and, with a step change in online profitability, a new web platform and increased fulfilment capacity, we can grow our online business with confidence, taking advantage of the expected ongoing increase in penetration of this channel.

We will **optimise our store estate**. We have a loyal store customer base, who temporarily migrated online when our stores were shut, but we believe they remain store shoppers at heart. Our store estate is the lifeblood of our business, delivering over 80% of our sales and remains profitable, with only a small tail of loss-makers. We strongly believe that, through active management, this will endure for many years to come and therefore we expect to continue to run an estate of 500+ stores. We will undertake selective new store openings, limited to no more than ten new stores per annum in the near term, with a focus on the top 100 locations that we do not currently trade in. We will also exit loss-making stores where we cannot either increase sales or reach an agreement with landlords on rent to make these stores commercially viable. However, the key part of our new strategy is to improve the in-store customer experience in our existing stores through better ranging, merchandising and making the stores easier to shop. We will also ensure that we continue to benefit from reductions in market rents through our flexible lease terms, which allow terms to be re-evaluated regularly.

We will **drive operational improvements**, with an initial focus on our end-to-end stock management processes and investment in our systems and data. Our historic focus on rolling out 50 new stores per annum, at pace, means that many of our processes and ways of working are outdated and inefficient for a business of our size. Addressing these current challenges provides opportunities to drive improved capability and efficiency across our operations, as well as better product choice and availability for our customers. We are also taking a more long-term partnership approach with key suppliers to help drive value after learning over the past 12 months which suppliers are willing to partner with us in this approach.

Colleagues

The Works has a unique 'can-do' culture, built over decades which, in the last year, has been distilled into our new purpose: "*people who do, inspiring people to do*", along with our core values: "*we are crafty, we*

are caring, we are can-do". The importance of having this strong culture became evident during the pandemic where colleagues were apart physically, and we couldn't be in-store with customers.

I am really proud of how colleagues have pulled together over the last year, caring for one another and for customers. It's just another example of what makes The Works such a great business and I'm even more pleased to see this externally recognised by the Best Companies 2021 "Best Big Companies to Work For", which ranked The Works in 13th place, up from 18th last year. We also recorded our highest ever colleague engagement score in our annual survey in September.

Our colleagues are our most important asset, which is why we will continue to invest in them to ensure that we continue to have one of the most engaged and enthusiastic workforces in the sector. In the last year we have learnt that effective working remotely is possible, but office working still has a place, so we will incorporate both into our operations going forward.

Since I took on the role of Chief Executive, we have also made several management changes, building our team and capabilities in order to deliver our better, not just bigger strategy. In 2020 we welcomed several new colleagues who between them bring breadth and depth of retail experience: Dean Hawkridge as Supply Chain Director, Jeremy Smith as Property Director and Darren MacDonald as Retail Operations Director and in July this year we appointed Nina Findley as Commercial Director. I was also really pleased that Steve Alldridge, who joined as interim CFO last year, agreed to stay on permanently in May 2021. We have built a formidable senior team that has the experience and the can-do attitude to execute our strategy and propel our business from strength-to-strength.

I know that colleagues will join me in saying a fond farewell to Dean Hoyle who is stepping down as Chairman and has played such an important part in The Works' growth and development over the last seven years. His counsel has been invaluable in guiding our business through some challenging periods, not least the COVID-19 pandemic, and we wish him all the best for the future. We also look ahead with optimism as Carolyn Bradley joins The Works as our new Chair at the end of September. Her experience in retail, brand and developing customer propositions will be vitally important in supporting The Works and I look forward to working with Carolyn to deliver our next stage of growth.

Environmental, Social, and Governance (ESG)

For many companies, initiatives to improve their environmental, social and governance credentials have understandably taken a backseat during the COVID-19 pandemic, whilst the focus has been on protecting the viability of the business. Whilst reviewing our operations and seeking potential efficiencies, we also took the opportunity to review our ESG responsibilities, and concluded that there was a lot more we could do as a business as part of *being better, not just bigger*.

We are now jointly focused on recovering from the pandemic and making less of an impact on the world in which we operate and the people in it, which is being led by our newly formed ESG Steering Group. This steering group, which I am proud to chair, is being led by members of our leadership team and is in the early stages of making plans to strengthen the structures and processes needed to improve our ESG capabilities across four key pillars: Giving Something Back, Inclusion and Diversity, Health and Wellbeing and Environmental. Although the nature of our business means that we will not be able to eliminate the consumption of resources, we recognise our duty to find the right balance, and look forward to making progress and reporting against each pillar in the years ahead.

The first milestone we reached in the last year was to cross the finish line in our #RaceTo£1million for Cancer Research UK. Since the launch of our partnership with Cancer Research UK back in 2016 we have tallied up a wealth of achievements, including raising over £180k in contributions from the sales of branded bookmarks and raising over £140k in our last financial year, despite the challenges of the pandemic. I am incredibly proud of our colleagues for their efforts over the years to support this worthy cause.

Prioritising mental health has never been more important, particularly in light of a year of lockdowns and social distancing. That is why we have chosen to enter into a new tri-nation partnership with three leading mental health charities - MIND, SAMH, and Inspire - which we launched with colleagues during Mental Health Awareness week 2021. They all do vital work in the nations where we operate, and will also provide support for our colleagues, and a new objective to fundraise for.

Summary and outlook

In summary, we have come out of a very difficult year with a strong team, a robust set of results and in a strong financial position, demonstrating the resilience of our business. We can rightly be proud of the way we have navigated the pandemic and the way that colleagues across the business pulled together during it – giving us a solid foundation for building our future growth. We've learned lessons, fine-tuned our strategy, assembled a new leadership team and are now well placed to execute our refocused strategy; *being better, not just bigger.*

The consumer recovery is underway but uncertainty still remains. Since coming out of the third lockdown trading has been very encouraging but Christmas continues to be our most important trading period so, whilst we can be pleased with these early signs, there is still a long way to go. By staying focused on the things we can control - having a clear and unified purpose and striving to be a better version of ourselves – we will retain loyalty of our customers, attract new ones and put ourselves in the best possible position for future growth.

Gavin Peck
Chief Executive Officer
20 July 2021

Financial review

The FY21 accounting period relates to the 53 weeks ended 2 May 2021 (also referred to as the Period) and the comparative FY20 accounting period relates to the 52 weeks ended 26 April 2020.

As is described more fully in Note 3 of the extracts from the financial statements included within this report, the Group tracks a number of alternative performance measures (APMs), as it believes that these provide stakeholders with additional helpful information. APMs used in this report include EBITDA, Adjusted EBITDA and like for like ("LFL") sales. Where it produces a more meaningful comparison, the FY21 figures in this report are related to the Adjusted FY20 comparatives.

The statutory loss before tax for FY21 was £2.8m (FY20: loss of £18.0m). The net effect of Adjusting items in FY21 was small compared with FY20 which included Adjusting items of £20.4m relating principally to non cash impairment charges.

The pre IFRS 16 Adjusted EBITDA was £4.3m (FY20: pre IFRS 16 Adjusted EBITDA of £10.8m).

Overview

FY20's report noted the effect of the enforced closure of the Group's stores towards the end of that financial year, and the uncertainty created by the unfolding COVID-19 pandemic. As expected, the pandemic was the dominant factor shaping FY21's result and was the cause of reduced sales and profit levels compared with the prior year. However, whilst the year on year impact was negative, the EBITDA result was in line with our "Base Case" scenario modelled at the beginning of the Period, and the cash position at the end of the year was better than the Base Case and better than at the end of FY20.

Therefore, although the pandemic had a significant adverse effect on the Group's FY21 results, in the context of our revised expectations, the overall outcome was good. As noted elsewhere in the report, sales were strong online, and in stores when trading was permitted, and the business worked hard to achieve savings, particularly in property costs. The Group acknowledges the benefit of £31.2m (FY20: £4.7m) from various Government support schemes (see below for further details), which mitigated some of the £82.4m year on year store sales lost due to The Works being deemed a non-essential retailer.

Other financial milestones during the Period included a successful refinancing of the Group's bank facilities and the agreement of a settlement with HMRC relating to historic duty rates applied by the Group (referred to in Note 6 of the FY20 financial statements). The settlement figure was in line with the provision included in the FY20 accounts.

Whilst uncertainty remains as to the possible continued effects of the pandemic, it is hoped that FY22 will not be characterised by further lockdowns and that the Group will be able to trade from all of its stores throughout the remainder of the period. Assuming that this transpires, a key financial objective for FY22 will be to continue to strengthen the balance sheet, affording greater resilience. Once this objective is achieved, the Board's intention would be to reintroduce dividends.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Revenue analysis

Total revenue during the year decreased by 19.7 per cent to £180.7 million (FY20: £225.0 million). Store LFL sales during the period grew by 6.0 per cent. and online sales grew by 120.9 per cent. compared with FY20.

A quarterly LFL results table has previously been included to illustrate the trading patterns throughout the year. However, due to the disruptions to trading as a result of COVID-19, this is omitted in this year's report.

The table on the following page shows LFL and non LFL sales growth for the Period, and a reconciliation of sales used to calculate the LFL, with statutory revenue. The Group does not typically quote separate LFL figures for stores and online, as this would be inconsistent with the ethos of a multi-channel business, but the introduction and subsequent lifting of trading restrictions throughout FY21, and the consequential disruption to sales patterns, hinders the interpretation of a combined store and online LFL sales figure.

Therefore, in the current exceptional circumstances, and to provide some indication of the trading performance, individual LFLs are quoted in respect of FY21. The total LFL is included in the table for the purpose of reconciling the LFL to statutory turnover.

The positive store LFL was a result of strong demand when the stores were able to trade, demonstrating the appeal of the proposition and the loyalty of customers. The significant increase in online sales reflects strong underlying performance, and the switch of shopping channel by many customers when they were unable to shop in store. The high demand thus created was able to be met as a result of investments made to increase online capacity, and in the new customer website, which enabled the achievement of online sales well above the level initially planned.

	FY21 £m	FY20 £m	Variance £m	Variance %
LFL store sales when stores were open[1]	128.9	121.6	7.3	6.0%
Online sales	62.1	28.1	34.0	120.9%
Total LFL sales for the period	**191.0**	**149.7**	**41.3**	**27.6%**
Non LFL store sales[2]	15.2	104.9	(89.7)	(85.5)%
Total Gross Sales	**206.2**	**254.6**	**(48.4)**	**(19.0)%**
VAT	(24.3)	(27.9)	3.6	(12.9)%
Cost of loyalty scheme points redeemed	(1.2)	(1.7)	0.5	(29.4)%
Revenue per statutory accounts	**180.7**	**225.0**	**(44.3)**	**(19.7)%**
Memo: total store sales (LFL plus non-LFL)	144.1	226.5	(82.4)	(36.4)%

Footnote:

[1]LFL sales are normally defined by the Group as the year on year growth in gross sales from stores which have been opened for a full 63 weeks (but excluding sales from stores closed for all or part of the relevant period or prior year comparable period), and from the Company's online store, calculated on a calendar week basis. Store LFL sales for FY21 are for the 53 weeks ended 2 May 2021, excluding periods when stores were required to be closed to comply with COVID-19 restrictions on trading. Online LFL sales are for the entire 53 week period, including when the stores were closed.

[2]The non LFL store sales figure for the prior year includes sales from "LFL" stores during weeks when those stores were required to be closed during FY21

The number of stores trading (ignoring any COVID-19 related closures) reduced by seven during the period, from 534 to 527. This was in line with the strategy of optimising the retail store estate, which entailed closing eleven stores, opening four new stores, and relocating two stores. The number of stores opened and closed is shown in the table below. Most of the capital cost of opening the new stores was funded via capital contributions from landlords, minimising the impact on the Group's cashflow. The new stores are trading successfully with sales levels above their financial appraisal targets.

Store numbers	FY21	FY20
Opening store numbers	**534**	497
Opened in the period	**4**	51
Closed in the period	**(11)**	(14)
Closing store numbers	**527**	**534**

The cost of loyalty points redeemed dropped due to the lower sales levels; the cost in relation to sales was broadly in line with the previous year.

Books are zero rated for VAT, and in FY21 represented a lower proportion of online sales than store sales. The high online sales relative to store sales during the year resulted in a reduction in sales mix of books and consequently a slight increase in the effective VAT rate.

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Product gross margin and adjusted cost of sales

Product gross margin and gross margin percentage

The product gross margin (the difference between revenue and the cost of goods sold) decreased by 10bps to 61.7% (FY20: 61.8%).

The underlying product gross margin was broadly unchanged year on year, although this was the net effect of some variances which offset one another. During H2 FY21, global freight rates increased significantly compared to the prior year, but this was largely offset by a reduction throughout the Period in the level of discounting, particularly online. The hedged FX rates were broadly similar year on year, resulting in a neutral FX effect. Progress on plans to increase the gross margin percentage through increased use of direct sourcing was hindered by restrictions on travel to Asia as a result of COVID-19; nevertheless, this remains an area of focus, and implementation will begin when it is possible to resume travel to visit suppliers.

Due to the enforced temporary closures of the stores, it was not possible to complete the full programme of stock counts during the year, nor was it possible to clear the usual volumes of terminal stock in the January 2021 sale. These factors necessitated an increased level of Period end stock provisions compared with the prior year, however, the overall impact on the profit and loss account charge was lessened by the fact that a lower volume of stock adjustments were processed during the course of FY21. The net adverse impact on the product gross margin compared to FY20 was approximately 0.3%.

	FY21	FY20	Variance	Variance
	£'m	£'m	£'m	%
Revenue	**180.7**	225.0	(44.3)	(19.7%)
Cost of goods sold	**69.1**	86.1	17.0	19.7%
Product gross margin	**111.5**	**138.9**	**(27.4)**	**(19.7%)**
Product gross margin %	61.7%	61.8%		(0.1%)

Adjusted cost of sales

The key movements in the Adjusted cost of sales figures included in the Consolidated Income Statement may be described by reference to the sub classifications shown in the table below, which are consistent with how these items are analysed internally.

	FY21		FY20 (Restated[1])			
Pre IFRS16 cost of sales analysis	£m	% of revenue	£m	% of revenue	£m Variance	% Variance
Cost of goods sold	69.1	38.3	86.1	38.2	16.9	19.7
Store payroll	37.7	20.8	42.1	18.7	4.4	10.5
Store property costs	32.75	18.1	44.3	19.7	11.6	26.1
Other direct costs	20.3	11.2	14.5	6.5	(5.8)	(39.8)
Cost of sales (per internal reporting)	**159.8**	**88.5**	**187.0**	**83.1**	**27.2**	**14.5**
Depreciation within cost of sales	5.2	2.9	5.2	2.3	-	0.2
IFRS16 impact (non Adjusting)	(4.2)	(2.3)	(2.7)	1.2	1.5	57.4
Adjusting items	(1.0)	(0.1)	4.1	1.8	5.1	n/a
Cost of sales per statutory accounts	**159.8**	**88.4**	**193.7**	**86.0**	**33.8**	**17.0**

[1]See property costs below and Note 2 of the extract from the financial statements.

Cost of goods sold

This comprises the cost of purchasing stock, including import duty and freight/carriage costs. The cost of goods sold decreased by £16.9m compared with FY20; the majority was due to the decrease in revenue, in addition to the factors noted above in relation to the gross product margin percentage.

Store payroll

Store payroll costs decreased by £4.4m compared with FY20. This was largely due to store colleagues being furloughed when stores were required to be closed, during most of which time, salaries were paid at 80% of normal levels, in line with the amounts which could be reclaimed under the Government's Coronavirus Job Retention Scheme. Note that amounts claimed pursuant to this scheme are classified as Other operating income.

The costs include the annual increase in the National Living Wage. The underlying level of store labour productivity improved slightly year on year, reflecting the realisation of some early benefits from the strategy to simplify store operations to remove unnecessary tasking. It is hoped that the continued focus on this, which will be aided by initiatives in other areas of the business (for example, supply chain) will partially mitigate future increases in the National Living Wage.

Store property costs

Store property costs include store rents, business rates and service charges. Store utility and maintenance costs are classified within "Other direct costs", below.

Store property costs decreased by £11.6m compared with FY20 as a result of COVID-19 business rates relief of £14.1m (FY20: £1.0m) and negotiations with landlords to reduce rents or obtain rent free periods when stores were closed. The reduction in costs was partially offset due to stores opened during FY20 incurring a full year's property costs during FY21. In the prior year financial statements, business rates relief was disclosed as other operating income, with cost of sales grossed up accordingly. These amounts have been restated, and the business rates relief is reflected as a reduction in cost of sales.

Other direct costs of sale

This includes credit/debit card transaction fees, store utility costs, store maintenance costs, online marketing costs, online fulfilment labour costs and store point of sale material costs (window graphics, in-store promotional signage etc.).

Other direct costs of sale were £5.8m higher than in FY20, primarily due to the significant increase in online sales, which caused online fulfilment and marketing costs to increase, albeit the marketing cost element increased by a much smaller percentage than the online sales increase. There was a reduction in store electricity costs due to the stores being closed for extended periods along with a reduction in store marketing and promotional spend.

Operating income and expenses (pre. IFRS 16 and Adjusting items)

Other operating income

Other operating income was £17.1m (FY20: £3.7m). As noted above, in the prior year financial statements, business rates relief was incorrectly disclosed as other operating income, with cost of sales grossed up accordingly. These amounts have been restated, and the business rates relief is reflected via a reduction in cost of sales.

	FY21	**FY20**	**Variance**
	£m	**£m**	**£'m**
Coronavirus Job Retention Scheme grants receivable	**15.3**	3.7	11.6
COVID-19 business grants receivable	**1.8**	-	1.8
Other operating income	**17.1**	**3.7**	**13.4**

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Expenses

Expense comparison:	FY21		FY20			
	£m	*% of revenue*	£m	*% of revenue*	£m Variance	*% Variance*
Pre-IFRS16, adjusted distribution costs	**15.0**	***8.3***	**12.4**	***5.5***	**(2.5)**	***(20.4)***
Depreciation	0.1	*0.1*	0.2	*0.1*	0.1	*55.3*
IFRS16 impact (non Adjusting)	-	-	-	-	-	-
Distribution costs per statutory accounts	**15.1**	***8.3***	**12.7**	***5.6***	**(2.4)**	***(19.2)***
Pre-IFRS16, adjusted administration costs	**18.8**	***10.4***	**18.5**	***8.2***	**(0.3)**	***(1.7)***
Depreciation	1.7	*0.9*	1.6	*0.7*	(0.1)	*(8.7)*
IFRS16 impact (non Adjusting)	(0.4)	*(0.2)*	(0.4)	*(0.2)*	0.0	*0.2*
Adjusting items	0.2	*0.1*	16.3	*7.2*	16.1	*98.8*
Administration costs per statutory accounts	**20.3**	***11.2***	**35.9**	***16.0***	**15.7**	***43.6***

Distribution costs

Distribution costs include the cost of picking and delivery of stock, except the direct labour costs of fulfilling online orders, which are included in “Other direct costs” as described above. Distribution costs increased by £2.5m, 20.4 per cent compared with FY20.

The increase in distribution costs was primarily a function of the increase in online sales; the increase in the online fulfilment capacity to facilitate this also incurred some additional costs; these increases were partially offset by lower pallet delivery costs to stores as a result of the store closures.

Administration costs

Administration costs include rent and rates for the Group’s head office and distribution centre and the payroll and overhead cost of the head office and retail field support teams.

Administration costs increased by £0.3m, 1.7 per cent. compared to the prior year, driven by an increase in audit and other professional fees. This was partially offset by savings in travel, accommodation and training costs.

Adoption of IFRS 16 - Leases

The Group adopted IFRS 16 ‘Leases’ in FY20. IFRS 16 specifies how to recognise, measure, present and disclose leases and replaces IAS17 ‘Leases’.

The Group adopted IFRS 16 from 29 April 2019 using the modified retrospective approach, under which the cumulative effect of the initial application of the new standard was recognised as an adjustment to the opening balance of retained earnings at 29 April 2019.

The net impact on the loss before tax for the period was an expense of £0.1m (FY20: £3.7m). Further information is provided in Note 8 of the extracts from the financial statements included in this report.

Adjusting items

Adjusting items before tax in the period amounted to a credit of £0.8m (FY20: charge of £20.4m). Most of the items treated as Adjusting related to impairment reversals; aside from these, Adjusting items were immaterial. Further details are included in Note 4 of the extracts from the financial statements.

Net financing expense

Net financing costs in the year were £5.5m (FY20: £4.5m), most of which relates to notional non-cash interest charges on lease liabilities, created by the operation of IFRS 16. This represented £4.9m of the total (FY20: £4.0m).

In August 2020, the Group completed a refinancing of its bank facilities, at a cost of £0.6m, which is being amortised over the life of the facility. Costs relating to the old facility were written off and are included within Other interest payable, along with the amortisation of the costs of the new facility.

The Group made minimal use of its bank facilities during the year and, consequently, underlying bank interest payable was immaterial, and broadly in line with last year.

Foreign exchange

Approximately forty per cent. of the Group's stock purchases are made in US dollars. The Group uses simple forward contracts to smooth the effect of exchange rate fluctuations, and hedge accounting is used to account for foreign exchange hedging contracts, to minimise unnecessary volatility in earnings. Further details of the Group's foreign exchange hedging policy are included in Note 25 of the FY21 Annual Report and Accounts.

FY21's average hedged rate was c. US$1.30 (FY20: US$1.27). Most of the anticipated dollar requirements for FY22 are hedged via forward contracts, at an average rate of c. US$1.29.

Adjusted loss/profit before tax

The Adjusted loss before tax and IFRS 16 was £3.4m in the year (FY20: profit of £3.3 million).

Tax

The Group's total income tax credit in respect of FY21 was £0.5m (FY20: credit of £0.3m). The effective tax rate on total profit before tax was 17.9 per cent. (FY20: 1.5 per cent.), whilst the effective tax rate on the total loss before adjusted items was 14.0 per cent. (FY20: 21.7 per cent.).

The difference between the total effective tax rate and the adjusted tax rate for FY21 relates to fixed asset impairment reversals within Adjusting items being non-deductible for tax purposes (FY20: primarily related to goodwill impairment within Adjusting items being non-deductible for tax purposes).

Earnings per share

The basic and diluted loss per share for the year was 3.7 pence (FY20: loss of 28.3 pence).

Before Adjusting items, the basic and diluted underlying loss per share for the year was 4.9 pence (FY20: earnings of 3.0 pence). More details regarding earnings per share are included in Note 12 of the FY21 Annual report and Accounts.

Capital expenditure

Capital expenditure amounted to £2.4m in the year (FY20: £8.7m), which is broadly in line with the £3m anticipated level indicated in last year's Annual Report. The majority of the capex defrayed on opening new stores was funded by landlord contributions. As noted last year, in order to preserve liquidity during the COVID-19 pandemic, capex was planned at a de-minimis level for FY21, which is reflected in the low level of expenditure detailed below.

	FY21 **£'m**	**FY20** **£'m**	**Variance** **£'m**
New stores and relocations	**0.6**	4.8	4.2
Store refits and rebrands	**0.7**	0.4	(0.3)
IT hardware and software	**0.6**	0.8	0.2
Web development	**0.5**	1.4	0.9
Other	**0.1**	1.3	1.2
Total capital expenditure	**2.4**	**8.7**	**6.3**

Inventory

Inventory (stock) levels were £29.1m at the end of FY21 (FY20: 26.6m), an increase of 9.4%.

	FY21 £m	FY20 £m
Gross stock value	**31.0**	27.6
Less: stock provisions for shrinkage and obsolescence	**(4.4)**	(1.9)
Goods for resale net of provisions	**26.7**	25.6
Stock in transit	**2.5**	0.8
Inventory	**29.1**	26.6

The stock level at the end of the Period was higher than at the end of FY20 due to the stores being closed for several months prior to the end of FY21, as a result of the third phase of lockdown restrictions. FY20 was similarly affected, but the period of closure of the stores at the end of FY20 was much shorter than in FY21.

Whilst the stock level is higher than the optimal level, it is entirely manageable, and will be progressively reduced during FY22. It is likely that some additional discounting will be needed to assist in this, and appropriate allowance has therefore been made within the stock obsolescence provisions, which are significantly higher than in prior years. The stock shrinkage provision also includes allowance for a higher than normal level of unrecognised stock loss, due to the interruption of the normal stock counting and adjustment process when the stores were closed. These calculations have entailed the use of estimates and judgements combined with mechanistic calculations and extrapolations. Brief details of the shrinkage and obsolescence provisions are noted below, and please refer also to Note 9 of the extracts from the financial statements included in this report.

Shrinkage provision

In a normal year not affected by lockdowns, the Group would carry out stock counts in its retail stores on a regular basis such that, at the end of the financial year, all, or substantially all of the stock in stores had been counted. The closure of the stores due to lockdowns interrupted this process and, therefore, it was not possible to achieve full coverage of the stock file. Consequently, the stock records were not able to be updated to reflect the results of stock counts for all stores and, therefore, the provision required for unrecognised shrinkage was significantly greater than normal. This increased the level of estimation uncertainty relating to the provision.

Obsolescence provision

The nature of what the group sells means that there is usually little stock which has a “shelf life”, or is at risk of going out of fashion. Slow selling lines, or lines that have sold successfully and become fragmented as they reach the natural end of their planned selling period, are usually discounted and sold during routine “sale” events, for example the January sale. The closures of the stores due to lockdowns interrupted this process, so at the balance sheet date, the Group carried a higher than normal level of terminal stock. Accordingly, an increase has been made in the provision for obsolescence; calculating this entailed a greater than normal degree of judgement, due to uncertainty regarding how much discounting may be required to sell the stock.

Cashflow

The table shows a summarised non IFRS 16 presentation cashflow to aid the description of the significant cashflow movements during the period. The financial statements include a statutory consolidated cashflow statement.

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	FY21 £'m	FY20 £'m	Variance £'m
Cashflow pre-working capital	3.3	9.2	(5.9)
Working capital in / (out) flow	7.7	(8.1)	15.8
Capex	(2.4)	(8.7)	6.3
Tax paid	-	(1.0)	1.0
Bank facility refinancing	(0.6)	-	(0.6)
Interest	(0.3)	(0.2)	(0.1)
Foreign exchange movements	0.2	0.3	(0.1)
Dividends	-	(2.3)	2.3
Total movement in net cash/(bank debt)	**7.9**	**(10.8)**	**18.7**
Cash at end of period	8.3	2.9	5.4
Debt at end of period	(7.5)	(10.0)	2.5
Net cash/(bank debt)	**0.8**	**(7.1)**	**7.9**

The net cash inflow for the year was £7.9m (FY20: £10.8m outflow).

The working capital inflow of £7.7m includes the receipt of a £3.7m prior year debtor in relation to the Coronavirus Job Retention Scheme for colleagues furloughed during the latter weeks of FY20. As a result of extensions to payment terms (including rent deferrals), some of which are permanent and some temporary, the working capital inflow includes a higher Period end creditor balance than at the end of FY20. At least £2.0m of this is expected to reverse during the course of FY22.

During the year the Group repaid £10.0m (FY20: £10.0m draw down) of its £25.0m revolving credit facility (“RCF”), but drew down a £7.5m CLBILS term loan.

Bank facilities and financial position

The financial position of the Group improved significantly during the Period, at the end of which, there were no net bank borrowings. At the Period end, the Group held net cash (excluding lease liabilities) of £0.8m (FY20: net bank debt of £7.1m) resulting in headroom of £30.0m within its bank facility limit. Despite sales levels being significantly lower than normal, liquidity was improved through the tight control of costs allied to careful cash management and the decision to make use of the available Government support schemes.

The Group’s bank facilities comprise a revolving credit facility (‘RCF’) of £22.5m and a £7.5m term loan facility written under the Government’s CLBILS scheme, both of which expire on 30 September 2022. The RCF limit reduces to £20.0m in January 2022 and remains at this level until its expiry. Based on the supportive stance taken by the bank, HSBC, and the Group’s careful management of the relationship, the Board expects these facilities to be extended or replaced, as required, in due course.

The facility includes financial covenants in relation to the level of EBITDA, net debt and capital expenditure. The covenant levels in relation to EBITDA have recently been revised by the bank, to allow for the effects of the winter 2020/21 lockdowns, which affected the historic last twelve months or ‘LTM’ cumulative EBITDA calculation used in the covenant.

The cash and borrowings of the Group at the period end are shown in Notes 19 (Cash and cash equivalents) of the FY21 Annual Report and Accounts and Note 10 (Borrowings) of the extracts from the financial statements included in this report. In addition, Note 25 (Financial risk management) of the FY21 Annual report and Accounts describes the Group’s approach to capital and financial risk management.

Dividends

In line with previous guidance issued, and due to the impact of COVID-19, the Board will not be recommending a dividend in respect of FY21, prioritising instead the further strengthening of the balance sheet. Nevertheless, the Board remains committed to paying dividends in the medium term and plans to review the appropriateness of doing so in January 2023, based on the Christmas 2022 trading performance.

Steve Alldridge
Chief Financial Officer
20 July 2021

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Consolidated Income Statement

For 53 week period ended 2 May 2021

		53 weeks to 02 May 2021			52 weeks to 26 April 2020 (Restated – Note 2)		
	Note	**Result before Adjusting items £000**	**Adjusting items £000**	**Total £000**	Result before Adjusting items £000	Adjusting items £000	Total £000
Revenue	3	**180,680**	**–**	**180,680**	225,042	–	225,042
Cost of sales		**(160,733)**	**975**	**(159,758)**	(189,537)	(4,110)	(193,647)
Gross profit		**19,947**	**975**	**20,922**	35,505	(4,110)	31,395
Other operating income	2	**17,081**	**–**	**17,081**	3,657	–	3,657
Distribution expenses		**(15,075)**	**–**	**(15,075)**	(12,656)	–	(12,656)
Administrative expenses		**(20,062)**	**(199)**	**(20,261)**	(19,619)	(16,295)	(35,914)
Operating profit/(loss)	5	**1,891**	**776**	**2,667**	6,887	(20,405)	(13,518)
Finance income		**18**	**–**	**18**	12	–	12
Finance expenses		**(5,486)**	**–**	**(5,486)**	(4,466)	–	(4,466)
Net financing expense		**(5,468)**	**–**	**(5,468)**	(4,454)	–	(4,454)
Profit/(loss) before tax		**(3,577)**	**776**	**(2,801)**	2,433	(20,405)	(17,972)
Taxation		**502**	**–**	**502**	(529)	799	270
Profit/(loss) for the period		**(3,075)**	**776**	**(2,299)**	1,904	(19,606)	(17,702)
Profit/(loss) before tax and IFRS 16	3	**(3,395)**	**707**	**(2,688)**	3,338	(17,560)	(14,222)
Basic earnings per share (pence)		**(4.9)**		**(3.7)**	3.0		(28.3)
Diluted earnings per share (pence)		**(4.9)**		**(3.7)**	3.0		(28.3)

Profit for the period is attributable to equity holders of the Parent.

Consolidated Statement of Comprehensive Income

For the 53 week period ended 2 May 2021

	FY21 £000	FY20 £000
Loss for the year	**(2,299)**	(17,702)
Items that may be recycled subsequently into profit and loss		
Cash flow hedges – changes in fair value	**(2,865)**	932
Cash flow hedges – reclassified to profit and loss	**252**	(91)
Cost of hedging reserve – changes in fair value	**(90)**	312
Cost of hedging reserve – reclassified to profit and loss	**(160)**	(197)
Tax relating to components of other comprehensive income	**536**	(248)
Other comprehensive (loss)/income for the period, net of income tax	**(2,327)**	708
Total comprehensive loss for the period attributable to equity shareholders of the Parent	**(4,626)**	(16,994)

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Consolidated Statement of Financial Position

As at 2 May 2021

	Note	FY21 £000	FY20 £000
Non-current assets			
Intangible assets	6	**2,463**	3,194
Property, plant and equipment	7	**18,325**	21,061
Right-of-use assets	8	**111,741**	116,763
Deferred tax assets		**2,852**	1,802
		135,381	142,820
Current assets			
Inventories	9	**29,132**	26,594
Trade and other receivables		**6,913**	8,130
Derivative financial asset		**–**	1,531
Current tax asset		**704**	687
Cash and cash equivalents	10	**8,315**	6,546
		45,064	43,488
Total assets		**180,445**	186,308
Current liabilities			
Bank overdraft	10	**–**	3,605
Interest-bearing loans and borrowings	10	**7,095**	9,938
Lease liabilities	8	**31,552**	22,002
Trade and other payables		**26,188**	26,189
Provisions		**718**	979
Derivative financial liability		**1,649**	–
		67,202	62,713
Non-current liabilities			
Interest-bearing loans and borrowings	10	**–**	(11)
Lease liabilities	8	**104,362**	110,200
Derivative financial liability		**53**	–
		104,415	110,189
Total liabilities		**171,617**	172,902
Net assets		**8,828**	13,406
Equity attributable to equity holders of the parent			
Share capital		**625**	625
Share premium		**28,322**	28,322
Merger reserve		**(54)**	(54)
Share-based payment reserve		**1,601**	1,506
Hedging reserve		**(1,203)**	1,171
Retained earnings		**(20,463)**	(18,164)
Total equity		**8,828**	13,406

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company						
	Share capital £000	Share premium £000	Merger reserve £000	Share-based payment reserve £000	Hedging reserve[1] £000	Retained earnings £000	Total equity £000
Balance at 28 April 2019	625	28,322	(54)	1,373	144	7,927	38,337
Transition to IFRS 16	–	–	–	–	–	(6,139)	(6,139)
Restated balance at 29 April 2019	625	28,322	(54)	1,373	144	1,788	32,198
Total comprehensive income for the period							
(Loss)/Profit for the period	–	–	–	–	–	(17,702)	(17,702)
Other comprehensive income	–	–	–	13	695	–	708
Total comprehensive income for the period	–	–	–	13	695	(17,702)	(16,994)
Hedging gains and losses and costs of hedging transferred to the cost of inventory	–	–	–	–	332	–	332
Transactions with owners of the Company							
Share-based payment charges	–	–	–	120	–	–	120
Dividend	–	–	–	–	–	(2,250)	(2,250)
Total transactions with owners	–	–	–	120	–	(2,250)	(2,130)
Balance at 26 April 2020	**625**	**28,322**	**(54)**	**1,506**	**1,171**	**(18,164)**	**13,406**
Total comprehensive income for the period							
(Loss)/Profit for the period	**–**	**–**	**–**	**–**	**–**	**(2,299)**	**(2,299)**
Other comprehensive income	**–**	**–**	**–**	**14**	**(2,341)**	**–**	**(2,327)**
Total comprehensive income for the period	**–**	**–**	**–**	**14**	**(2,341)**	**(2,299)**	**(4,626)**
Hedging gains and losses and costs of hedging transferred to the cost of inventory	**–**	**–**	**–**	**–**	**(33)**	**-**	**(33)**
Transactions with owners of the Company							
Share-based payment charges	**–**	**–**	**–**	**81**	**–**	**–**	**81**
Dividend	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total transactions with owners	**–**	**–**	**–**	**81**	**–**	**–**	**81**
Balance at 2 May 2021	**625**	**28,322**	**(54)**	**1,601**	**(1,203)**	**(20,463)**	**8,828**

1 Hedging reserve includes £155,124 (2020: £137,387) in relation to changes in forward points which are recognised in other comprehensive income and accumulated as a cost of hedging within the hedging reserve.

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Consolidated Cash Flow Statement

For 53 week period ended 2 May 2021

	FY21 £000	FY20 (Restated – Note 8) £000
(Loss) for the year (including Adjusting items)	**(2,299)**	(17,702)
Adjustments for:		
Depreciation of property, plant and equipment	**5,187**	5,261
Impairment of property, plant and equipment	**156**	509
Reversal of impairment of property, plant and equipment	**(1,000)**	(176)
Depreciation of right-of-use assets	**23,311**	23,133
Impairment of right-of-use assets	**805**	2,991
Reversal of impairment of right-of-use assets	**(874)**	–
Amortisation of intangible assets	**947**	1,170
Impairment of intangible assets	**–**	16,180
Derivative exchange loss/(gain)	**(444)**	(290)
Financial income	**(18)**	(12)
Financial expense	**617**	425
Interest on lease liabilities	**4,869**	4,041
Loss on disposal of property, plant and equipment	**262**	299
Loss on disposal of right-of-use asset	**373**	795
Profit on disposal of lease liability	**(464)**	(870)
Loss on disposal of intangible assets	**311**	–
Share-based payment charges	**81**	120
Taxation	**(502)**	(270)
Operating cash flows before changes in working capital	**31,318**	35,604
Decrease in trade and other receivables	**1,217**	6,336
Increase in inventories	**(2,284)**	(1,410)
Increase/(decrease) in trade and other payables	**167**	(13,822)
(Decrease)/Increase in provisions	**(261)**	792
Cash flows from operating activities	**30,157**	27,500
Corporation tax paid	**(30)**	(1,039)
Net cash inflow from operating activities	**30,127**	26,461
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(1,869)**	(6,625)
Acquisition of intangible assets	**(526)**	(2,050)
Interest received	**18**	12
Net cash outflow from investing activities	**(2,377)**	(8,663)
Cash flows from financing activities		
Payment of lease liabilities (capital)	**(14,327)**	(22,351)
Payment of lease liabilities (interest)	**(4,869)**	(4,041)
Payment of RCF fees	**(619)**	-
Other interest paid	**(279)**	(230)
Dividends paid	**–**	(2,250)
Repayment of bank borrowings	**(10,000)**	–
Issue of bank loan	**7,500**	10,000
Net cash outflow from financing activities	**(22,594)**	(18,872)
Net increase/(decrease) in cash and cash equivalents	**5,156**	(1,074)
Exchange rate movements	**218**	328
Cash and cash equivalents at beginning of year	**2,941**	3,687
Cash and cash equivalents at end of year	**8,315**	2,941

Notes

1. Accounting policies

Where accounting policies are particular to an individual note, narrative regarding the policy is included with the relevant note, for example, the accounting policy in relation to inventory is detailed in Note 9 (Inventories) of the extracts from the financial statements.

(a) General information

TheWorks.co.uk plc is one of the UK's leading multi-channel value retailers of arts and crafts, stationery, toys, and books, offering customers a differentiated proposition as a value alternative to full price specialist retailers. The Group operates a network of over 500 stores in the UK & Ireland and an online store.

TheWorks.co.uk plc (the Company) is a UK based public limited company (11325534) with its registered office at Boldmere House, Faraday Avenue, Hams Hall Distribution Park, Coleshill, Birmingham, B46 1AL.

These consolidated financial statements for the 53 weeks ended 2 May 2021 ('FY21' or the 'Period') comprise the results of the Company and its subsidiaries (together referred to as 'the Group'), and are presented in pounds sterling. All values are rounded to the nearest thousand (£000), except when otherwise indicated.

(b) Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies, and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, future budgets and forecasts, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Group's significant judgements and estimates relate to the classification of Adjusting items, hedge accounting, the impairment of property, plant and equipment, right-of-use assets and intangibles, and the quantification and valuation of inventory.

(i) Going concern

The financial statements have been prepared on a going concern basis, which the Directors consider appropriate for the reasons set out below.

The Directors have assessed the prospects of the Group, taking into account its current position and the potential impact of the principal risks documented in the Strategic Report included in the FY21 Annual Report and Accounts.

The Group has prepared cashflow forecasts, reflecting the approved budget for FY22, for a period of at least 12 months from the date of approval of these financial statements, referred to as the "Base Case" scenario. In addition, two "severe but plausible" downside case sensitivities have been prepared to support the Board's conclusion regarding going concern, by stress testing the Base Case to indicate levels of financial headroom resulting from applying more pessimistic assumptions. The two sensitivities are referred to as a "Management downside", which represents the Board's view of a severe but plausible sensitivity, and a "Lockdown downside" which provides an additional point of reference but is considered to represent a less likely severe but plausible scenario than the Management downside. These models are described in more detail below.

In assessing the basis of preparation the Directors have considered:

- The external environment.
- The Group's financial position including the quantum and expectations regarding availability of bank facilities.
- Measures taken or, which could be taken if necessary, to maintain or increase liquidity.
- The potential impact on financial performance of the risks described in the Strategic Report.
- The output of the Base Case model, which represents the Group's estimate of the most likely financial performance over the forecast period.
- The resilience of the Group to the manifestation of a more severe impact from these risks, evaluated via the severe but plausible downside case models noted above.
- The availability and expected effectiveness of any mitigating actions that would be taken in response to circumstances arising such as those modelled under the downside cases.
- The impact on the Group's cash flows, bank facility headroom and covenants.

These factors are described below.

External environment

There continues to be uncertainty as to the future impact on the Group of the COVID-19 pandemic. It appears that, currently, the greatest source of uncertainty arises from the different variants of the virus, and their potential to be resistant to vaccine induced immunity. Reflecting this, the severe but plausible downside scenarios include assumptions that there may be further disruption, particularly during the second half of FY22. Nevertheless, the Board's view is that the level of uncertainty and risk due to COVID-19 is at a significantly lower level than at this time last year. In addition, the business has demonstrated a high degree of resilience to the disruption caused by the pandemic.

The Board's assessment is that the level of uncertainty arising from the UK leaving the European Union has also decreased since last year. Uncertainties remain, and the Group is experiencing some additional administrative burden as a result of the change, but this is more of an inconvenience than a major risk. The most significant further impacts on the Group may be in relation to its business in the Republic of Ireland and Northern Ireland, but due to their scale, Brexit related disruption to these operations would be unlikely to represent a significant threat to the Group's ability to operate as a going concern.

Financial position and bank facilities

The cash and borrowings of the Group at the period end are shown in Notes 19 (Cash and cash equivalents) of the FY21 Annual report and Accounts and 10 (Borrowings) of the extracts from the financial statements included in this report. In addition, Note 25 (Financial risk management) describes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

At 2 May 2021 the Group held net cash (excluding lease liabilities) of £0.8m (FY20: net bank debt of £7.1m). This comprised net cash of £8.3m and a draw-down of £7.5m against a CLBILS term loan.

The Group's bank facilities comprise a revolving credit facility ('RCF') of £22.5m, which is undrawn at the date of approval of these financial statements and a £7.5m term loan facility written under the Government's CLBILS scheme, both of which expire on 30 September 2022. The RCF limit reduces to £20.0m in January 2022 and remains at this level until its expiry. Based on the supportive stance taken recently by the Group's bank, and the Group's careful management of the banking relationship, the Board expects these facilities to be extended or replaced, as required, in due course.

The facilities include financial covenants in relation to the level of LTM (last twelve months' rolling) EBITDA, net bank debt and capital expenditure. The covenant levels in relation to LTM EBITDA have recently been revised by the bank, to allow for the effects of the winter 2020/21 lockdowns, which affected the historic LTM EBITDA calculation.

Measures to maintain or increase liquidity

During FY21 a number of measures were implemented to maintain or improve liquidity, including the decision to utilise the support available from the Government. In aggregate, these measures, combined

with a strong trading performance, resulted in the Group's net cash position improving by £7.9m during the year.

In the event of further disruptions to trading being experienced during FY22 or subsequently, if deemed necessary, mitigating actions would be taken in response, which would increase liquidity. These may include, for example, delaying and reducing stock purchases, stock liquidation, reductions in capital expenditure and the review of payment terms. In order to retain clear visibility as to the unmitigated effects of applying the sensitivity assumptions, these potential mitigations have not been built into the models described. The Group has demonstrated its ability during FY21 to deploy mitigating actions to support liquidity.

Potential impact of risks on financial scenarios

The "Principal risks and uncertainties" section at the end of this report sets out the main risks that the Board considers could threaten the Group's business model, future performance, solvency or liquidity.

It is considered unlikely that all the risks would manifest themselves simultaneously in a way that would adversely affect the business. The Directors have estimated what the most likely combination of risks might be that could materialise within the going concern assessment period and how the business might be affected; this combination of risks is reflected in the Base Case assumptions. The most prominent risks in the near term would appear to be connected with COVID-19, which could affect sales, costs and liquidity. Other risks, such as market and economic environment could have similar manifestations to COVID-19, and Brexit could impact these areas as well as the supply chain.

The severe but plausible downside models take into consideration the same risks, but assume that their effects are more severe, especially the level of disruption that could be experienced if the COVID-19 situation worsens during the coming winter.

Base Case scenario

The Base Case scenario assumptions are aligned with the Group's internal budget and three year plan.

- The retail stores are assumed not to be affected by further lockdowns or significant disruptions during the going concern period. Nevertheless, reflecting some degree of continuing uncertainty as to the outlook for consumer spending and the assumption that the proportion of online sales continues to increase, LFL store sales are assumed to be below pre-COVID-19 levels during FY22 and into FY23.
- Online sales levels during FY22 are assumed to be lower than in FY21, when the retail stores were closed for significant periods, but higher than in FY20, reflecting improvements in the Group's online proposition, and the continuing growth of online sales relative to store sales.
- The gross margin assumptions include provision for higher than normal ocean container freight costs during FY22 due to the continued impact of imbalances within the global freight system but this is assumed to have normalised by FY23. FY22 FX requirements were hedged during 2020 at approximately $1.29 and the plan reflects this.
- The plan reflects the continuation of cost savings made during FY21, for example permanent rent reductions. It also includes provision for investment in certain areas to support delivery of the strategic plan, provision for known or expected inflationary increases such as further increases in the National Living Wage, but reduced direct COVID-19 related costs, such as, in relation to PPE.
- Capital expenditure levels are in line with bank covenants for FY22 and show modest increases thereafter. The plan does not allow for the resumption of dividend payments whilst the Group is utilising the CLBILS loan written under the terms of the Government's business loan scheme.

Under this Base Case scenario, headroom of at least £17m compared with the liquidity covenant is maintained throughout the remaining life of the bank facilities, and at least £5m in relation to the LTM EBITDA covenant (with a significant part of the LTM periods including the lockdowns during FY21).

The output of the Base Case scenario model therefore indicates that the Group would have sufficient financial resources to continue to meet its liabilities as they fall due over the going concern period.

Severe but plausible downside case scenarios

Management downside scenario

The management downside scenario makes the following assumptions to reflect more adverse conditions compared to the Base Case:

- Store LFL sales are assumed to be approximately 10% below FY20 levels during the whole of H2 FY22; this could occur, for example, due to an increased level of impact from COVID-19 if the situation worsens during the winter months, or a general reduction in demand if consumer spending falls.
- Online growth is also modelled at a lower level than in the Base case, even though recent experience has shown that online sales increased when store sales were negatively affected by restrictions related to COVID-19.
- Sales levels remain below the Base Case into FY23.
- The gross margin has been assumed to be adversely affected more than is already reflected in the Base Case, due to higher ocean container freight costs. The peak impact is assumed to be a further 1% reduction in Q4 of FY22, with a 0.5% reduction during the preceding and the subsequent six months.
- Costs are only adjusted to the extent that they move directly with sales levels, for example online fulfilment and marketing costs are assumed to reduce to correspond with the lower online sales, but the model does not reflect other mitigating actions that may be taken, depending on management's assessment of the situation at the time. These may include, for example, adjustments to stock purchases, reducing capital expenditure, seeking agreement from suppliers/landlords to extensions to payment terms and reductions in headcount if the adverse effect was expected to endure for a longer period of time.
- This downside assumes that there would not be any further government support available.

Under this scenario, the Group continues to have not less than £11m headroom within its liquidity covenant and there is approximately £1m headroom within the LTM EBITDA covenant during January and February 2022 and from June to September 2022, before the impact of any mitigating actions. Accordingly, under the Management downside scenario, the Board's expectation is that the business would continue to have adequate resources to continue in operation.

Lockdown downside scenario

Under the Lockdown downside scenario, all retail stores are assumed to be affected by two further periods of full national lockdown, one in the fourth quarter of the 2021 calendar year and one in the first quarter of 2022. This scenario takes into account previous experience of trading during full lockdowns, for example, either side of the lockdown period, sales levels increased, online sales are assumed to increase and cover part of the sales lost due to the assumed store closures, and it has been assumed that similar support from government is available corresponding with the periods of closure, e.g. the furlough scheme. Costs which naturally flex when sales change, such as online fulfilment costs, alter within this scenario, but the scenario does not reflect the additional headroom which would be created as a result of taking the mitigating actions referred to in relation to the Management downside.

For the period of the going concern forecasts falling within FY23, the assumptions in this downside are the same as the Base Case.

Under this scenario, the Group continues to have not less than £11m headroom within its liquidity covenant and there is approximately £1m headroom within the LTM EBITDA covenant from November 2021 to February 2022 before the impact of mitigating actions referred to above.

Conclusion regarding basis of preparation

Due to the ongoing COVID-19 pandemic, there continues to be a level of uncertainty which is greater than what would previously have been regarded as normal. However, the Board's assessment is that the level is lower than at this time last year, and that the resilience demonstrated by the business during FY21, in very challenging conditions, provides additional assurance about the Group's ability to continue as a going concern in the event of further COVID-19 related disruption.

Consequently, the Directors are confident that the Group 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 have therefore prepared the financial statements on a going concern basis.

(ii) New accounting standards

The Group has applied the following new standards and interpretations for the first time for the annual reporting period commencing 27 April 2020:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform, Phase 1 amendments to IFRS 9, IAS 39 and IFRS 7

The adoption of the standards and interpretations listed above has not led to any changes to the Group's accounting policies nor had any other material impact on the financial position or performance of the Group.

(c) Critical accounting judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts.

Critical judgements represent key decisions made by management in the application of the Group accounting policies.

Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of 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. Actual results may differ from these estimates.

Critical accounting judgements, which are material to the financial statements, are described in the context of the matters to which they relate and can be found in the following notes:

- Adjusting items – Note 4 of the extracts from the financial statements
- Hedge accounting– Note 25 in the FY21 Annual Report and Accounts

Key sources of estimation uncertainty which are material to the financial statements are described in the context of the matters to which they relate, in the following notes:

- Impairment of property, plant and equipment and right of use assets – Note 7 of the extracts from the financial statements
- Inventory – Note 9 of the extracts from the financial statements

2. Other operating income

Accounting policy

The business was classified as a "non-essential retailer" and was therefore required to close its shops during periods of lockdown. Accordingly, the Group has made full use of the support schemes available from the Government, to partially mitigate the loss of profit caused by the various periods of closure of the retail stores. Support has been received through three mechanisms, described below, and as summarised in the table:

1. The Coronavirus Job Retention scheme (CJRS), the Government's support measure relating to employment. This provided grants to cover wages of furloughed colleagues, with payments available of up to 80% of colleagues' wages, up to a maximum of £2,500 per month plus national insurance and auto-enrolled pension contributions, to the extent these could be claimed.
2. Business rates relief.
3. Local business support grants.

Amounts received relating to the CRJS scheme and local business support grants must be classified as a government grant and accounted for in accordance with IAS 20 Government Grants. Such grants are recognised in the Income Statement in the period in which the associated costs for which the grants are intended to compensate are incurred. The grant income is reported as 'Other operating income' in the Income Statement.

The total business rates relief received during the year was £14.1m (FY20: £1.0m). In the prior year financial statements business rates relief was disclosed as other operating income, with cost of sales grossed up accordingly. These amounts have been restated, and the business rates relief is reflected via a £1.0m reduction in cost of sales (from £194.7k to £193.6k) and a corresponding reduction in other operating income (from £4.7m to £3.7m). As a consequence, gross profit has increased from £30.4m to £31.4m. There is no impact on operating loss or loss for the Period ended 26 April 2020 and no impact on prior year opening or closing net assets.

	FY21 £000	FY20 (Restated – see above) £000
COVID-19 Furlough Scheme Grants Receivable	**15,309**	3,650
COVID-19 Business Grants Receivable	**1,765**	–
Rent receivable	**7**	7
	17,081	3,657

3. Alternative performance measures (“APMs”)

Accounting policy

The Group tracks a number of APMs in managing its business, which are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. They are consistent with how the business performance is planned and reported internally, and are also consistent with how these measures have been reported historically. Some of the APMs are also used for the purpose of setting remuneration targets.

The APMs should be viewed as supplemental to, but not as a substitute for, measures presented in the consolidated financial statements prepared in accordance with IFRS. The Group believes that the APMs are useful indicators of its performance but they may not be comparable with similarly-titled measures reported by other companies due to the possibility of differences in the way they are calculated.

Like-for-like sales

LFL sales are normally defined by the Group as the year-on-year growth in gross sales from stores which have been opened for a full 63 weeks (but excluding sales from stores closed for all or part of the relevant period or prior year comparable period), and from the Company’s online store, calculated on a calendar week basis. Store LFL sales for FY21 are for the 53 weeks ended 2 May 2021, excluding periods when stores were required to be closed to comply with COVID-19 restrictions on trading. Online LFL sales are for the entire 53-week period, including when the stores were closed.

Non LFL store sales figures for the prior year includes sales from “LFL” stores during weeks when those stores were required to be closed during FY21.

The measure is used widely in the retail industry as an indicator of sales performance. A reconciliation of IFRS revenue to sales on a like-for-like basis is set out below:

	FY21 £000	FY20 £000
LFL store sales when stores were open	**128,901**	121,617
Online sales	**62,084**	28,107
Total like-for-like sales	**190,985**	149,724
Non LFL store sales	**15,176**	104,910
Total gross sales	**206,161**	254,634
VAT	**(24,290)**	(27,931)
Loyalty points	**(1,191)**	(1,661)
Revenue per consolidated income statement	**180,680**	225,042
Memo: total store sales (LFL plus non-LFL)	**144,077**	133,017

EBITDA, Adjusted EBIDTA and Adjusted profit after tax

EBITDA is defined by the Group as earnings before interest, tax, depreciation, amortisation and profit/loss on the disposal of fixed assets. Adjusted EBITDA is calculated by adding back or deducting Adjusting Items to EBITDA. See Note 4 for a description of Adjusting items.

The Group also reports another measure of Adjusted EBITDA, which removes the impact of IFRS 16, to allow comparisons against prior years, and to provide a measure that is consistent with internal reporting and is as used by the Group in its investment appraisals. The table provides a reconciliation of Adjusted EBITDA to (loss)/profit after tax, and the impact of IFRS 16:

	FY21	FY20 (Restated –Note 8)
	£000	£000
Non-IFRS 16 Adjusted EBITDA[1]	**4,285**	10,809
IAS 17 income statement charges not recognised under IFRS 16	**27,572**	25,955
Foreign exchange difference on euro leases	**(59)**	(89)
Post IFRS 16 Adjusted EBITDA[1]	**31,798**	36,675
Loss on disposal of right-of-use assets recognised under IFRS 16	**(353)**	(795)
Profit on disposal of lease liability recognised under IFRS 16	**464**	870
Loss on disposals of property, plant and equipment	**(262)**	(299)
Loss on disposals of intangible assets	**(311)**	–
Depreciation of PPE	**(5,187)**	(5,261)
Depreciation of RoUA	**(23,311)**	(23,133))
Amortisation	**(947)**	(1,170)
Finance expenses	**(5,486)**	(4,466)
Finance income	**18**	12
Tax charge	**502**	(529)
Adjusted (loss) / profit after tax	**(3,075)**	1,904
Adjusting items (including impairment charges and reversals)	**776**	(20,405)
Tax charge	**0**	799
Loss after tax	**(2,299)**	(17,702)

[1]Also adjusted for profit and loss on disposal of right-of-use assets and liabilities, property, plant and equipment and intangible assets.

Profit before tax and IFRS 16

The table provides a reconciliation of profit/(loss) before tax and IFRS 16 adjustments to profit/(loss) before tax.

	FY21		
	Adjusted £000	Adjusting Items £000	Total £000
Loss before tax before IFRS 16 adjustments	**(3,395)**	**707**	**(2,688)**
Remove IAS 17 rental charge	27,449	–	27,449
Remove hire costs from hire of equipment	124	–	124
Remove depreciation charged on the existing assets	329	–	329
Remove interest charged on the existing liability	44	–	44
Depreciation charge on right-of-use assets	(23,311)	–	(23,311)
Interest cost on lease liability	(4,869)	–	(4,869)
Loss on disposal of right-of-use assets	(353)	–	(353)
Profit on disposal of lease liability	464	–	464
Foreign exchange difference on euro leases	(59)	–	(59)
Additional impairment charge under IAS 36	-	69	69
Net Impact on loss	**(182)**	69	**(113)**
Loss before tax	**(3,577)**	**776**	**(2,801)**

Adjusted profit metrics

Key profit measures including operating profit, profit before tax, profit for the period and earnings per share are calculated on an adjusted basis by adding back or deducting Adjusting Items. See Note 4 for a description of Adjusting Items. These adjusted metrics are included within the consolidated income statement and statement of other comprehensive income, with further details of Adjusting items included in Note 4.

4. Adjusting items

Critical accounting judgement

The Directors believe that the adjusted profit and earnings per share measures included in this report provide additional useful information to shareholders. These measures are consistent with how business performance is measured internally. The profit before tax and Adjusting items measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The classification of Adjusting items entails the making of significant judgements.

If a transaction or related series of transactions has been treated as an Adjusting item in one accounting period, the same treatment will be applied consistently year on year.

In relation to FY21, the items classified as "Adjusting", as shown below, were related to transactions that had been treated as Adjusting in prior periods.

	FY21 £000	FY20 £000
Cost of sales		
Impairment charges[1]	**961**	3,500
Impairment reversals[1]	**(1,873)**	(176)
HMRC duty provision[2]	**(63)**	786
Total cost of sales	**(975)**	4,110
Administrative expenses		
Goodwill impairment[3]	–	16,180
Salary and other costs[4]	**322**	115
Packaging waste costs provision release[5]	**(123)**	–
Total administrative expenses	**199**	16,295
Total Adjusting items	**(776)**	20,405

1 These relate to fixed asset impairment charges and reversals of prior year impairment charges.
2 This relates to a provision recognised regarding an ongoing HMRC review of the Group's duty rates.
3 This relates to the impairment of goodwill during the prior year. Refer to Note 6 for further detail.
4 Salary and other costs relate to payments to past Directors (refer to the FY20 Director's Remuneration Report for further detail) and other associated costs.
5 This relates to the release of a provision recognised regarding packaging waste cost penalties from FY18.

5. Operating profit

Operating profit (before Adjusting items) is stated after charging/(crediting) the following items:

	FY21 £000	FY20 (Restated – Note 8) £000
Loss on disposal of property, plant and equipment	**262**	299
Loss on disposal of intangible assets	**311**	-
Loss on disposal of right-of-use assets	**353**	795
Profit on disposal of lease liability	**(464)**	(870)
Depreciation	**28,498**	28,394
Amortisation	**947**	1,170
Adjusting items (see Note 4)	**(776)**	20,405
Operating lease payments:		
– Hire of plant and machinery[1]	**392**	345
– Other operating leases[1]	**439**	2,208
Net foreign exchange losses	**135**	208
Cost of inventories recognised as an expense	**69,364**	86,398
Staff costs	**49,989**	54,401

1 These balances relate to non-IFRS 16 operating lease rentals during the year, please refer to Note 8 for further details of these balances.

6. Intangible assets

Accounting policy

Goodwill

Goodwill arising on consolidation represents any excess of the consideration paid and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment annually or as triggering events occur. Any impairment in value is recognised within the income statement.

Software

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of goods and services, as well as internal payroll-related costs for employees who are directly associated with the project. Internal payroll-related costs are capitalised if the recognition criteria of IAS 38 'Intangible Assets' are met or are expensed as incurred otherwise.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between three and seven years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised within the income statement.

	Goodwill £000	**Software £000**	**Total £000**
Cost			
Balance at 27 April 2020	**16,180**	**8,415**	**24,595**
Additions	–	**526**	**526**
Disposals	–	**(898)**	**(898)**
Balance at 2 May 2021	**16,180**	**8,043**	**24,223**
Amortisation and impairment			
Balance at 27 April 2020	**16,180**	**5,221**	**21,401**
Amortisation charge for the year	–	**947**	**947**
Impairment charges	–	**(588)**	**(588)**
Balance at 2 May 2021	**16,180**	**5,580**	**21,760**
Net book value			
At 27 April 2020	**–**	**3,194**	**3,194**
At 2 May 2021	–	**2,463**	**2,463**

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 29 April 2019	16,180	6,365	22,545
Additions	–	2,050	2,050
Balance at 26 April 2020	16,180	8,415	24,595
Amortisation			
Balance at 29 April 2019	–	4,051	4,051
Amortisation charge for the year	–	1.170	1.170
Impairment charges	16,180	–	16,180
Balance at 26 April 2020	16,180	5,221	21,401
Net book value			
At 29 April 2019	16,180	2,314	18,494
At 26 April 2020	–	3,194	3,194

Goodwill impairment testing

Goodwill of £16.2 million was impaired to £NIL in FY20, and no further impairment testing is necessary in relation to this.

7. Property, plant and equipment

Accounting policy

Items of property, plant and equipment are stated at their cost of acquisition or production, less accumulated depreciation and accumulated impairment losses.

Depreciation is charged on a straight-line basis over the estimated useful lives as follows:

- Leasehold property improvements: Over the life of the lease.
- Fixtures and fittings: 15 per cent. per annum straight-line or depreciated on a straight-line basis over the remaining life of the lease, whichever is shorter.
- Computer equipment: 25 to 50 per cent. per annum straight-line.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

IFRS 16

IFRS 16 creates the concept of 'right of use' assets. The accounting policy and description of the accounting treatment in respect of IFRS 16 is included within Note 8.

Key source of estimation uncertainty

Impairment of tangible and intangible assets

The carrying amounts of the Group's tangible and intangible assets with a definite useful life are reviewed at each balance sheet date to determine whether there is any indication of impairment to their value. If such an indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The Directors consider an individual retail store to be a cash-generating unit ('CGU').

The recoverable amount of an asset is the greater of its fair value less disposal cost and its value-in-use (the present value of the future cash flows that the asset is expected to generate). In determining value in use the present value of future cash flows is discounted using a pre-tax discount rate that reflects current market assessments of the time value-of money in relation to the period of the investment and the risks specific to the asset concerned. Where the carrying value exceeds the recoverable amount a provision for the impairment loss is established with a charge being made to the income statement. When the reasons for a write down no longer exist the write down is reversed in the income statement up to the net book value that the relevant asset would have had if it had not been written down and if it had been depreciated. For intangible assets that have an indefinite useful life the recoverable amount is estimated at each annual balance sheet date

Measuring recoverable amounts

The key assumptions for the value-in-use calculations are those regarding the growth rates of sales and gross margins, operating costs, long-term growth rates, maintenance capital expenditure and the post-tax discount rate used to discount the assumed cash flows to present value. Due to Covid-19 and its impact on the UK economy and the Group, an impairment review was performed on all stores. The value-in-use calculations require the use of assumptions, which are sources of estimation uncertainty.

Key assumptions

The key financial assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of current market conditions and future trends and have been based on historical data from both external and internal sources. Management determined the values assigned to these financial assumptions as follows:

The pre-tax discount rate is derived from the Group's weighted average cost of capital, which has been estimated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium, a forecasting risk premium and a risk adjustment (beta). The post-tax WACC is subsequently adjusted to reflect the specific amount and timing of the future tax cash flows.

	FY21	FY20
Pre-tax discount rate	16.8%	16.3%
Long-term growth rate	0.0%	0.0%

Cash flow forecasts are derived from the most recent Board-approved corporate plans that form the Base Case on which the value in use calculations are based, and which are described in note 1 (b) (i) (Going concern) of the extracts from the financial statements.

The assumptions used in the estimation of future cash flows are:

- Rates of growth in sales and gross margins, which have been determined on the basis of the factors described in Note 1 (b) (i) (Going concern) of the extracts from the financial statements.
- Operating cost estimates reflect expected changes in the variables that underpin them and, in particular, expected increases in the National Living Wage and rent payments.
- Maintenance capital expenditure includes estimates of ongoing capital expenditure required to maintain the store network, but excludes any significant growth capital initiatives not committed. In this context, it should be noted that the company's bank facilities include a covenant which places a limit of £3.5 million on capital expenditure in respect of FY22.

Cash flows beyond the corporate plan period (2025 and beyond) have been determined using the long term growth rate; this is based on management's future expectations, reflecting, amongst other things current market conditions and future trends and has been based on historical data from both external and internal sources.

Impairment charge

Goodwill was written down to nil in FY20. An impairment charge of £3,500k was recorded against right of use assets, property, plant and equipment in FY20 relating to 107 stores. Evidence is available from internal reporting that indicates that the economic performance of 85 of these stores has improved and is expected to continue to do so. As a result, an impairment reversal of £1,874k has been recognised relating to these stores. Conversely, during FY21 an impairment charge of £961k was recognised against a further 28 stores. A net reversal of £913k has therefore been shown as an Adjusting item on the face of the Consolidated Income Statement.

Sensitivity analysis and sources of estimation uncertainty

Whilst the Directors believe the assumptions adopted are realistic, reasonably possible changes in key assumptions could occur which would cause the recoverable amount of certain stores to be lower or higher than the carrying amount. The directors consider that the only key assumption, that could reasonably be different and cause a material change in the impairment charge, is sales growth. A reduction in sales of 5% from the Base Case plan to reflect a potential downside scenario would result in an increase in the impairment charge of £476k to £1,437k relating to a total of 38 stores. An increase in sales of 5% from the Base Case plan would increase the impairment reversal by £270k to £1,954k relating to 88 stores.

Reasonably possible changes to other key assumptions, including a 20 basis point increase in the pre-tax discount rate across all stores, would not result in a significant impairment charge, either individually or in combination.

Whilst the Directors consider their assumptions to be realistic, should actual results, including those for the rates of growth in sales and gross margins, be different from expectations, then it is possible that the

value of property, plant and equipment included in the balance sheet could become materially different to the estimates used.

	RoUA – Property	**RoUA – plant and equipment**	**Land and Buildings**	**Plant and Equipment**	**Fixtures and Fittings**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Cost						
Balance at 27 April 2020	**140,992**	**1,724**	**10,591**	**2,539**	**25,738**	**181,584**
Additions	**18,404**	**189**	**151**	**859**	**859**	**20,462**
Disposals	**(624)**	–	**(60)**	**(22)**	**(430)**	**(1,136)**
Balance at 2 May 2021	**158,772**	**1,913**	**10,682**	**3,376**	**26,167**	**200,910**
Depreciation and impairment						
Balance at 27 April 2020	**25,494**	**459**	**4,586**	**2,185**	**11,036**	**43,760**
Depreciation charge for the year	**22,794**	**517**	**975**	**594**	**3,618**	**28,498**
Impairment charge	**805**	**–**	**39**	**7**	**110**	**961**
Impairment reversals	**(874)**	–	**(149)**	**(49)**	**(802)**	**(1,874)**
Disposals	**(251)**	–	**(7)**	**(17)**	**(226)**	**(501)**
Balance at 2 May 2021	**47,968**	**976**	**5,444**	**2,720**	**13,736**	**70,844**
Net book value						
At 27 April 2020	**115,498**	**1,265**	**6,005**	**354**	**14,702**	**137,824**
At 2 May 2021	**110,804**	**937**	**5,238**	**656**	**12,431**	**130,066**

	RoUA – Property	RoUA – plant and equipment	Land and Buildings	Plant and Equipment	Fixtures and Fittings	Total
	(Restated –Note 8) £000	£000	£000	£000	£000	(Restated- Note 8) £000
Cost						
Balance at 29 April 2019	–	–	9,253	2,529	21,457	33,239
Adoption of IFRS 16 (Restated - Note 8)	105,608	841	–	–	–	106,449
Adoption of IFRS 16 – Transfer to RoUA	–	457	–	(457)	–	–
Additions	36,350	426	1,366	503	4,756	43,401
Disposals	(966)	–	(28)	(36)	(475)	(1,505)
Balance at 26 April 2020	140,992	1,724	10,591	2,539	25,738	181,584
Depreciation and impairment						
Balance at 29 April 2019	–	–	3,329	1,756	7,368	12,453
Depreciation charge for the year Restated –Note 8)	22,674	459	1,092	609	3,560	28,394
Impairment charge	2,991	–	152	17	340	3,500
Impairment reversals	–	–	–	(176)	–	(176)
Disposals	(171)	–	13	(21)	(232)	(411)
Balance at 26 April 2020 (Restated –Note 8)	25,494	459	4,586	2,185	11,036	43,760
Net book value						
At 29 April 2019	–	–	5,924	773	14,089	20,786
At 26 April 2020	115,498	1,265	6,005	354	14,702	137,824

8. IFRS 16

Accounting policy

IFRS16 establishes principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 requires the use of a single definition of leases which recognises a right-of-use asset (RoUA) and a lease liability for **all** leases, with exceptions only permitted for short-term and low-value leases. Accordingly, the impact of IFRS 16 is to require recognition of a lease liability and a corresponding RoUA in relation to leases previously classified as operating leases, which were hitherto accounted for via a single charge to the profit and loss account.

The most significant impact is that the Group's retail store operating leases are recognised on the balance sheet as right-of-use assets representing the economic benefits of the Group's right to use the underlying leased assets, together with the associated future lease liabilities.

The Group adopted IFRS 16 from 29 April 2019 using the modified retrospective transition approach as described in paragraph C5 (b) of the standard.

Under IFRS 16, the Group recognises right-of-use assets and lease liabilities at the lease commencement date.

Identifying an IFRS 16 lease

At the inception of a contract, the Group assesses whether it is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an asset for a period of time, in exchange for consideration. Control is conveyed where the Group has both the right to direct the asset's use and to obtain substantially all the economic benefits from that use. For each lease or lease component, the Group follows the lease accounting model as per IFRS 16, unless the permitted recognition exceptions can be used.

Recognition exceptions

The Group leases many assets, including properties, IT equipment, motor vehicles and warehouse equipment.

The Group has elected to account for lease payments as an expense on a straight line basis over the lease term or another systematic basis for the following types of leases:

(i) Leases with a term of 12 months or less.

(ii) Leases where the underlying asset has a low value.

For leases where the Group has taken the short-term lease recognition exemption and there are any changes to the lease term or the lease is modified, the Group accounts for the lease as a new lease.

For leases where the Group has taken a recognition exemption as detailed above, rentals payable under these leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

Lessee accounting under IFRS 16

Upon lease commencement the Group recognises a right-of-use asset and a lease liability.

Initial measurement

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located at the end of the lease, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Group uses the incremental borrowing rate.

Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability and are initially measured using the index or rate as at the commencement date. Amounts

expected to be payable by the Group under residual value guarantees are also included. Variable lease payments that are not included in the measurement of the lease liability are recognised in profit or loss in the period in which the event or condition that triggers payment occurs, unless the costs are included in the carrying amount of another asset under another accounting standard.

The Group has applied judgement to determine the lease term for some lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the value of lease liabilities and right-of-use assets recognised.

The payments related to leases are presented under cash flows from financing activities and cash flows from operating activities in the cash flow statement.

Subsequent measurement

After lease commencement, the Group values right-of-use assets using a cost model. Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured to reflect changes in: the lease term (using a revised discount rate); the assessment of a purchase option (using a revised discount rate); the amounts expected to be payable under residual value guarantees (using an unchanged discount rate); and future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

The re-measurements are matched by adjustments to the right-of-use asset. Lease modifications may also prompt re-measurement of the lease liability unless they are determined to be separate leases.

Depreciation of right-of-use assets

The right-of-use asset is subsequently depreciated using the straight-line method, from the commencement date, to the earlier of either, the end of the useful life of the right-of-use asset or, the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility. The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal options and break clauses. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, and therefore the amount of lease liabilities and right-of-use assets recognised.

Judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For property leases the following factors are the most relevant:

- The profitability of the leased store and future plans for the business.
- If there are any significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend.

COVID-19 concessions

The Group has elected to account for qualifying COVID-19 related rent concessions as variable lease payments, recognising the concession in the period in which the event or condition that triggers the payments occurs. Rent concessions are qualifying if the following conditions are met:

- *The concession is a direct consequence of the COVID-19 pandemic.*
- The change in lease payments resulted in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- The reduction in lease payments only affects payments due on or before 30 June 2021.

- There is no substantive change to other terms and conditions of the lease.

The group has applied this practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances.

Amounts recognised in the balance sheet

Right-of-use assets:

	FY21 £000	FY20 £000
Land and buildings	**110,804**	115,498
Plant and equipment	**937**	1,265
Total right-of-use assets	**111,741**	**116,763**

Additions to the right-of-use assets during FY21 were £19,727k.

Lease liabilities:

Lease liabilities included in the statement of financial position as at the financial year end:

	FY21 £000	FY20 £000
Current	**31,552**	22,002
Non-current	**104,362**	110,200
	127,078	132,202

Maturity analysis – contractual discounted cash flows:

	FY21 £000	FY20 (Restated[1]) £000
Less than 1 year	**35,978**	26,542
2 to 5 years	**86,601**	87,674
More than 5 years	**30,158**	36,611
Total undiscounted lease liabilities	**152,737**	150,827

[1] In the FY20 financial statements the figures disclosed were the discounted cash flows, therefore these amounts have been restated to reflect the undiscounted financial liability.

Amounts recognised in the statement of profit and loss:

	FY21 £000	FY20 (Restated[1]) £000
Depreciation charge on Right of Use Asset	**23,311**	23,133
Interest cost on lease liability	**4,869**	4,041
Profit on disposal of RoUA	**353**	795
Profit on disposal of lease liability	**(464)**	(870)
Foreign exchange difference on euro leases	**59**	89
Additional impairment charge under IAS 36	**(69)**	2,991
Operating lease rentals – hire of plant and equipment		
- Motor Vehicle Lease Payments	**282**	326
- Low value leases	**110**	19
Total plant and equipment operating lease rentals	**392**	345
Operating lease rentals – store leases		
- Stores with variable lease rentals	**20**	247
- Concession leases, the landlord has substantial substitution rights	**1,310**	1,347
- Low value leases	**(23)**	1
- Lease is expiring within 12 month or has rolling break clauses	**98**	228
- Lease has expired[1]	**149**	385
- Variable lease payments as a result of COVID-19 concessions	**(1,115)**	-
Total store operating lease rentals	**439**	4,730

[1] In FY20, £2,769k was included on a separate line under ‘Operating lease rentals – store leases’. Of this amount, £2,522k related to depreciation on right of use assets and has therefore been restated to be included in the line item ‘Depreciation charge on Right of Use Asset’ in the table above. The remaining £247k related to lease payments for

stores with variable lease rentals, and has therefore been restated to be included in the corresponding line in the table above. There was no impact on the total lease expense recorded.

This restatement came about due to a lease liability being recorded in the prior year closing right of use asset and lease liability balances, rather than opening balances adopted on transition to IFRS 16. Therefore the opening balances for right of use assets in the table in Note 7 have been restated by the same amount. There was no net impact on FY20 opening or closing net assets.

In the Consolidated Cash Flow Statement, the £2,522k of lease payments have now been included in "Depreciation of right-of-use assets". This has therefore been restated from £20,661k to £23,133k, with a corresponding restatement of "Payment of lease liabilities (capital)" from £19,829k to £22,351k. "Net cash inflow from operating activities", which totalled £23,939k and has been restated to £26,461k; a corresponding restatement has been made to increase the "Net cash outflow from financing activities" from £16,350k to £18,872k. The was no overall impact on the "Net decrease in cash and cash equivalents".

Depreciation of right-of-use asset by class:	**FY21**	FY20 (Restated – see above)
	£000	£000
Land and Buildings	**22,794**	22,674
Plant and Equipment	**517**	459
Total right-of-use asset depreciation	**23,311**	23,133

Other lease rental commitments:

Non-cancellable operating lease rentals for leases excluded from the IFRS-16 assessment are as follows:

	Motor Vehicle Leases	**Concession Store Leases**	**Total**
	£'000	**£'000**	**£'000**
Less Than One Year	247	326	573
Between One and Five Years	230	51	281
More Than Five Years	-	-	-
Total Operating Lease Commitments	477	377	854

9. Inventories

Accounting policy

Inventories comprise stocks of finished goods for resale and are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. "Cost" includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition.

The process of purchasing inventories may include the use of cash flow hedges to manage foreign exchange risk. Where hedge accounting applies, an adjustment is applied such that the cost of stock reflects the hedged exchange rate.

Inventory summary

	FY21	FY20
	£000	£000
Gross stock value	**31,045**	27,635
Less: stock provisions for shrinkage and obsolescence	**(4,391)**	(1,885)
Goods for resale net of provisions	**26,654**	25,750
Stock in transit	**2,478**	844
Inventory	**29,132**	26,594

The cost of inventories recognised as an expense during the Period was £69.4m (FY20: £86.4m).

Stock provisions

The Group makes provisions in relation to stock quantities, due to stock losses not yet reflected in the accounting records, commonly referred to as shrinkage and, in relation to stock value, where the net realisable value of an item is expected to be lower than its cost, due to obsolescence.

Historically, the calculation of stock provisions has entailed the use of estimates and judgements combined with mechanistic calculations and extrapolations. Due to the effects of the COVID-19 pandemic, the element of judgement/estimation applied in the calculation of the FY21 provisions was significantly increased.

Shrinkage provision

In a normal, non-COVID-19 impacted year, the Group would carry out stock counts in its retail stores on a regular basis such that, at the end of the financial year, all, or substantially all of the stock in stores had been counted. Through this process, the Group establishes that its accounting records are maintained to reflect the actual quantities of stock in stores. This process also provides the Group with an indication of the typical percentage of stock loss, which is used to calculate, by extrapolation, unrecognised shrinkage at the balance sheet date. Similar processes operate in respect of the Group's distribution facilities.

The closure of the stores for extended periods during FY21 significantly interrupted this process and, as a result, it was not possible to achieve the normal degree of coverage of the stock file. Consequently, the stock records were not updated to reflect the results of stock counts to the same extent as in prior years and, therefore, the provision required for unrecognised shrinkage materially increased, and its calculation entailed a higher degree of estimation uncertainty.

To validate the percentage used in calculating the unrecognised shrinkage provision, the Group carried out sample stock counts in certain stores towards the end of the financial year. The percentage derived from these counts was higher than the rates observed historically. The shrinkage provision was £2.6m at the Period end (FY20: £1.4m), representing 8.3% of gross stock (FY20: 5.1%). This represents management's best estimate of the likely level of stock losses experienced, but the actual level of stock loss will only be established once all products in all locations have been counted. Using different methods of applying actual results from the sample stock counts to different cohorts of stock, resulted in a series of provision values which were within a range of plus or minus 15 per cent. of the £2.6m shrinkage provision. This represents the expected range of estimation uncertainty with regard to the unrecognised shrinkage provision.

Obsolescence provision

Generally, the Group's inventory does not comprise a large proportion of stock with a "shelf life". Stock lines which are slow selling because they have been less successful than planned or, which have sold successfully, and become fragmented as they reach the natural end of their planned selling period, are usually discounted and sold during "sale" events, for example the January sale. This stock is referred to as terminal stock.

The closures of the stores due to the COVID-19 pandemic also interrupted the orderly process of selling through terminal stock, particularly the UK-wide lockdown implemented between January and April 2021, which coincided with the period when the January sale would normally have taken place. As a result, at the balance sheet date, the Group carried a higher than normal level of terminal stock. Accordingly, an increase has been made in the provision for obsolescence, to £1.8m, to reflect the higher absolute level of terminal stock, and the fact that it may be necessary to apply deep discounts to sell certain lines. The making of this provision has entailed a greater than normal degree of judgement, due to uncertainty regarding the actual level of discounting that may be required to achieve an orderly realisation of the stock. Analysis has been carried out to determine the effect on the obsolescence provision of making different selling price assumptions in relation to cohorts of stock of differing ages and types. The conclusion drawn from this analysis was that using a reasonable range of estimates for the eventual price at which the subject stock is sold, the £1.8m obsolescence provision may be over stated by approximately £0.3m.

Due to the higher than normal level of provisions, combined with the raised level of uncertainty relating to estimates such as the ultimate selling price of terminal stock, the calculation of the stock provisions is considered a key source of estimation uncertainty for the FY21 financial statements.

10. Borrowings

Accounting policy

Interest-bearing bank loans and overdrafts, loan notes and other loans are recognised in the balance sheet at amortised cost. Finance charges associated with arranging non-equity funding are recognised in the income statement over the life of the facility. All other borrowing costs are recognised in the income statement in accordance with the effective interest rate method. A summary of the Group's objectives, policies, procedures and strategies with regard to financial instruments and capital management can be found in Note 25 (Financial Instruments) of the FY21 Annual Report and Accounts. At 2 May 2021 all borrowings were denominated in sterling (2020: sterling).

	FY21 £000	FY20 £000
Non-current liabilities		
Lease liabilities	**104,362**	110,200
Unamortised debt issue costs	**-**	(11)
Non-current liabilities	**104,362**	110,189
Current liabilities		
Bank overdraft	**–**	3,605
Secured bank loans	**7,500**	10,000
Lease liabilities	**31,552**	22,002
Unamortised debt issue costs	**(405)**	(62)
Current liabilities	**38,647**	35,545

Reconciliation of borrowings to cashflows arising from financing activities

	FY21 £000	FY20 (Restated – Note 8) £000
Borrowings at start of year (excluding overdraft[1])	**142,129**	633
Additional lease liabilities recognised on adoption of IFRS 16 – (Restated –Note 8)	**–**	117,836
Restated borrowings at start of year (excluding overdrafts[1])	**142,129**	118,469
Changes from financing cashflows		
Payment of lease liabilities (capital) – (Restated –Note 8)	**(14,327)**	(23,351)
Payment of lease liabilities (interest)	**(4,869)**	(4,041)
Proceeds from loans and borrowings	**7,500**	10,000
Repayment of bank borrowings	**(10,000)**	–
Payment of RCF fees	**(619)**	–
Total changes from financing cashflows – (Restated –Note 8)	**(22,315)**	(16,392)
Other changes		
Lease liability additions	**18,593**	36,729
Disposal of lease liabilities	**(464)**	(870)
The effect of changes in foreign exchange rates	**(59)**	89
Interest expense	**5,125**	4,104
Total other changes	**23,195**	40,052
Borrowings at end of year (excluding overdrafts[1])	**143,009**	142,129

1 The bank overdraft has been excluded in this reconciliation as it is included within the net cash and cash equivalents balance reconciled within the consolidated cash flow statement.

Net debt reconciliation

	FY21 £000	FY20 £000
Net debt (excluding unamortised debt costs)		
RCF	**7,500**	10,000
Bank overdraft	**–**	3,605
Cash and cash equivalents	**(8,315)**	(6,546)
Net bank (cash) / debt	**(815)**	7,059
Non-IFRS 16 lease liabilities	**766**	952
Non-IFRS 16 net (cash)/debt	**(49)**	8,011
IFRS 16 lease liabilities	**135,148**	131,250
Net debt including IFRS 16 lease liabilities	**135,099**	139,261

11. Related party transactions

Identity of related parties with which the Group has transacted

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below.

Transactions with key management personnel

The compensation of key management personnel (including the Directors) is as follows:

	FY21 £000	FY20 £000
Key management remuneration – including social security costs	**1,965**	2,001
Pension contributions	**124**	84
Long-term incentive plan – including social security costs	**29**	80
Total transactions with key management personnel	**2,118**	2,165

Further details on the compensation of key management personnel who are directors are provided in the Group's Director's Remuneration Report in the FY21 Annual Report and Accounts.

Principal risks and uncertainties

The Board and the senior management team are collectively responsible for managing The Group's exposure to risks and uncertainties including determination of the Group's risk appetite. Where a conflict exists between risk management objectives and strategic ambitions, the Board seeks to achieve a balance which facilitates the long-term success of the Group.

The Board has assessed the principal risks facing the Group and emerging risks, including those that would threaten its business model, future performance, solvency or liquidity and reviews the Group's most significant risks at least twice a year.

Risks and uncertainties in addition to those detailed below, not presently known to management, or deemed less material currently, may also have an adverse effect on the business. Further, the exposure to each risk will evolve as mitigating actions are taken or as new risks emerge. The principal risks and uncertainties facing the Group are set out below, together with details of how these are currently mitigated.

Risk	Description	Mitigation	Change in level of risk from prior year
COVID-19	COVID-19 has created an unprecedented challenge. We believe the risks to the Group posed by the COVID-19 pandemic are as follows: • Potential for further impact on economic conditions, in particular, once Government support schemes are withdrawn. • The possibility of further Government restrictions on trading could affect the ability to trade and may affect the ability of the third party logistics provider and parcel delivery provider to service online fulfilment. • Supply chain disruption, including disruption to stock availability and potential cost inflation. • Liquidity risk: the risks listed above could adversely impact liquidity. • The two dose vaccination programme is set to complete in September 2021, as such the health of colleagues remains a risk particularly during H1.	The health and wellbeing of colleagues, customers and wider communities is the Board's overriding priority. Events are closely monitored by the Board which evaluates the potential impacts and designs appropriate response strategies. The Group maintains a prudent approach to costs, however a number of additional temporary measures were also taken to reduce costs and/or conserve cash, including; • Use of Government support schemes. • Reducing rent payments whilst stores were closed, wherever possible, through cooperation with landlords; • Careful management of stock intake; • Suspended non-essential capital investment, including new store rollout programme (with the exception of a small number of stores which were legally committed); • Minimised discretionary operational expenditure; The Group has worked with its third party logistics partner to increase capacity safely, which worked well during peak trading in November & December 2020. The Group has implemented changes to stores, the distribution centre and store support centre (including hygiene and social distancing measures and enabling the majority of head office colleagues to be able to work remotely where practical to do so).	Reduced risk level since date of previous report. The Group has successfully managed through what appears to have been the period most intensely affected by the pandemic. Whilst uncertainty remains as to the ongoing impacts, with a vaccination programme reportedly progressing well, and a booster programme planned for the autumn, the Board's perception is that the risk level is lower than previously.

Risk	Description	Mitigation	Change in level of risk from prior year
Finance	Insufficient liquidity available and/or insufficient headroom in banking facilities. Potential for breach of banking covenants if financial performance is significantly worse than planned. Availability of credit insurance to suppliers may be reduced or removed resulting in an increased cash requirement.	Covenant headroom monitored and forecast covenants calculated on a monthly basis and reported to Board. Bank facilities renewed August 2020, with increased covenant headroom and expiry date extended to September 2022. Strategic emphasis now more on costs and efficiency than previous store roll out plan, reducing risk. Constructive dialogue maintained with suppliers, regarding payment terms. The Group's cash position at the end of FY21 is stronger than at the end of FY20, and its internal profit and cash forecasts have improved since the end of FY20. The FY21 lockdown restrictions created the risk of a potential LTM EBITDA covenant breach later in the 2021 calendar year. However, the Group's forecasts showed adequate cash headroom throughout, and the Groups bank has since adjusted the covenant to provide more headroom. The relationship with the bank is open and constructive and it is anticipated that when a renewal or extension of the bank facilities is discussed early in 2022, the outcome will be positive.	Reduced risk level.
Market	The Group generates most of its revenue from the sale of books, toys, art and craft and stationery products. Although it has a track record of understanding customers' needs within these categories, the market is highly competitive, with increasing competition from "hard discounters" and customers' tastes and shopping habits can change quickly. Failure to effectively predict and respond to changes could affect the Group's sales and financial performance. Most of the Group's sales are derived from physical shops. The challenges facing the high street have increased during the pandemic and there is a risk that customers may not return to the	Ongoing focus on development of product offer helps differentiate The Works, bringing unique, quality, products to market at great prices. Experienced trading team monitors emerging trends and has a track record of responding to changing consumer tastes. Competitors' propositions closely monitored, with key developments discussed at weekly trading meetings and at Board level on a regular basis. Customer feedback is monitored and reported against regularly. Sales data and various online feedback channels are used to drive purchasing and marketing decisions.	Same risk level

Risk	Description	Mitigation	Change in level of risk from prior year
	high street which could adversely affect sales if the Group is unable to offset this by gaining a greater share of the available business.	Sales patterns indicate that the Group's retail estate continues to be relevant to customers, for example, evidenced by the strong sales experienced upon reopening the stores after the most recent lockdown. In the event that individual stores cease to be viable, the flexible lease terms which the Group maintains allow it to adapt the store portfolio, to suit the evolution of customer shopping habits. Meanwhile, investment in the online capability continues, to ensure that this channel complements the retail proposition, and vice versa, as customers increasingly engage with both channels whilst shopping.	
Economic environment	The Group's business is sensitive to general economic and consumer spending conditions. A deterioration in economic conditions or a reduction in consumer confidence could impact upon customer spending and have an adverse effect on the Group's revenue and profitability. This risk is currently heightened due to COVID-19.	The Board considers that the Group's proposition as an alternative to full price specialist retailers, offering quality good value products, positions it well for customers looking to trade-down in times of economic uncertainty. Sales trends are monitored daily and reviewed at weekly trading meetings attended by senior management, with mitigating actions agreed to drive sales and/or reduce costs as appropriate. The senior management team has significant relevant experience.	Same risk level. Although restrictions on trading have now been lifted, and the Government has stated its ambition not to impose further restrictions in the future, the longer term effects of the COVID-19 pandemic on the economy are unknown and it therefore continues to represent a potential economic risk. Risks connected to Brexit appear to have reduced following the announcement of a trade agreement.
Brand and reputation	'TheWorks.co.uk' is the Group's key brand asset. Protecting and enhancing the Group's brand and reputation is vital to its success. Failure to protect the brand, in particular regarding product quality and safety, could result in the Group's reputation, sales and future prospects being adversely affected.	The values which guide how the Group seeks to conduct itself are well communicated to colleagues and the senior management team leads by example. Intellectual property guidance and education is provided to design and sourcing teams. Customer and market research focuses on understanding brand perception. Customer product reviews are monitored using the Group's partner provider ("feefo"), with appropriate action taken to remove products from sale where quality issues are identified. The Group operates an in-house product quality assurance team to work with suppliers to ensure product quality, safety and ethical production.	Same risk level

Risk	Description	Mitigation	Change in level of risk from prior year
		Third-party technical and ethical audits are conducted and suppliers are required to deliver a valid product safety test certificate ahead of an order being fulfilled. An Ethics Committee has been set up during FY21 to ensure that the business operates on sound moral principles, whilst remaining true to its mission, values and behaviours. It will ensure that Environmental, Social and Governance responsibilities are monitored, as well as driving its 'Giving Something Back' agenda	
Supply chain	The Group uses third parties, including many in Asia, for the supply of products. This creates a number of potential areas of risk, including the potential for supplier failures and the risks of manufacturing and importing of goods from overseas and potential disruption at various stages of the supply chain. This disruption risk may be heightened due to COVID-19. Recently, the main supply chain impact has been an increase in ocean freight rates and reduced availability of shipping containers. The industry has suffered as a result of uneven demand and supply patterns occurring globally due to the pandemic. Brexit uncertainty remains to some extent, as import and export processes will alter, but the recent agreement of a deal should reduce the risk level. Suppliers may fail to act or operate in an ethically appropriate manner.	An experienced buying team is responsible for the sourcing of products, who maintain strong relationships with key suppliers. The supplier base is continually reviewed. Supply options are diversified and/or changed where needed, providing flexibility and reducing reliance on individual suppliers. Tighter controls have been introduced throughout the import process, supported by a recently introduced new freight forwarder, using improved systems. The Group conducts business fairly, ethically and with respect to human rights and is committed to the prevention of slavery, forced labour or servitude, child labour and human-trafficking, in the business and supply chain. An Ethical Trading Code of Conduct and a Human Rights Policy are in operation, which suppliers are required to adhere to. A recently established Environmental, Social and Governance ("ESG") steering group will monitor the Group's ESG responsibilities and compliance. Suppliers must sign the Group's Terms and Conditions of Purchase which state the supplier has read, understood and agrees to conform to the Ethical Trading Code of Conduct. Independent monitoring of suppliers is undertaken using third-party auditors having local country knowledge and an understanding of social and ethical requirements. The audits take place directly in the factories and monitor workplace	Similar overall risk level.

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Risk	Description	Mitigation	Change in level of risk from prior year
		conditions, interview workers and evaluate operating conditions. These are based on the Ethical Trade Initiative ('ETI') Base Code. Independent product testing is also carried out as part of a product surveillance test programme. During H2 FY21 there was disruption in the ocean freight industry which caused unprecedented increases in the cost of shipping a standard container from Asia to the U.K., and also delays. The impact to the Group during FY21 was less critical than might otherwise have been the case, due to the requirement for stock being lessened because of the COVID-19 trading restrictions in place at the time. The situation reached a state of relative stability during the earlier part of 2021 but, most recently, it has worsened again, with increased rates being expected during summer 2021 in particular. The Group has been able to mitigate some of the risk through contractual agreements with its main freight forwarder, but remains partially exposed to the risk of higher spot rates or delays. Alternative measures have been put in place, including the securing of additional capacity on specially chartered sailings, which are expected to ensure that the flow of stock is not materially affected during the critical pre-peak months of July, August and September. Thereafter, the shipping volumes decrease significantly and, therefore, the associated risks also decline. Provision for higher freight costs has been included in the Group's internal financial forecast for FY22, and it is not expected that these recent developments will have a material impact on the forecast. The Group will keep under review whether, should higher freight costs become a longer term issue, some, or all, of the additional costs should be reflected in higher selling prices and/or alternative sourcing arrangements where practicable.	
Loss of key personnel	The Group's strategy and long-term success is dependent on	Succession plans continue to be developed and are discussed at Nomination Committee meetings.	Same risk level

Risk	Description	Mitigation	Change in level of risk from prior year
	the quality of the Board and senior management team. There is a risk that a lack of effective succession planning for the senior management team and development of key colleagues, could harm future prospects.	Objectives and development programmes are currently being put in place to support future leaders. Well managed search and recruitment processes, with a compelling proposition for potential recruits: we continue to be successful in attracting and recruiting high calibre executives to the Operational Board The Group's remuneration policy is designed to ensure management incentives support the long-term success of the Group for the benefit of all stakeholders. In the current year, restricted share awards were put in place for the Operational board along with an LTIP for the CEO.	
Business continuity	Significant disruption to key parts of the operation, in particular, internal IT systems, the store support centre or a distribution centre, could severely impact The Group's ability to supply stores or fulfil online sales resulting in significant financial or reputational damage.	A disaster recovery plan and strategy is in place. Disaster recovery dry run exercises are undertaken periodically. The Group maintains appropriate business interruption insurance cover. An emergency generator at the store support centre insulates it from the effect of power cuts. System recovery is captured as part of the Business Continuity Plan and any part could be invoked depending on the nature of the issue with the system. An in-house development team maintains the internal systems and can be deployed immediately a problem arises. This team has recently been strengthened.	Same risk level
Regulation and compliance	The Group is exposed to a growing number of legal and regulatory compliance requirements including: the Bribery Act, the Modern Slavery Act, tax evasion and Senior Accounting Officer rules, GDPR, Gender Pay Gap reporting, National Living and Minimum Wage, Environmental and Listing Rules. Failure to comply with these regulations could lead to financial claims, penalties, awards of damages, fines or	The Group's CFO and Company Secretary oversee regulatory compliance with support from external advisers. Senior management team members are aware of the key compliance requirements within their business units and liaise with the CFO and external advisers to identify and manage issues. The Group has a number of policies and procedures governing behaviours in all key areas, some addressing mandatory requirements (e.g. anti-bribery and	Same risk level

Risk	Description	Mitigation	Change in level of risk from prior year
	reputational damage which, in some cases, could be material and could significantly impact the financial performance of the business.	corruption, adherence to national living wage requirements) and others adopted voluntarily. A whistle-blowing policy and procedure is in place, allowing colleagues to confidentially report any concerns or inappropriate behaviour. The Group has a GDPR policy, a data supervisor and an established GDPR governance meeting, with minutes and actions circulated to the senior management team. An out-sourced internal audit function is used as required to focus on key areas of control which are judged to warrant review.	
IT systems and cyber security	The Group is reliant on the efficiency, reliability and resilience of key IT systems. Failure to develop and maintain these systems, or any prolonged system performance problems or cyber-attack, could affect the Group's ability to trade and/or could lead to significant fines and reputational damage.	Recovery of key business systems is captured as part of the Business Continuity Plan with enhanced working from home capabilities deployed in response to COVID-19. Support contracts, with appropriate SLAs, are in place for all third-party systems with in-house systems supported by an experienced development team. Operational practices for maintaining security have been reviewed with revised and more frequent patching cycles adopted. More frequent vulnerability scans and penetration tests are used to validate the robustness of security. A Design Review Group meets weekly to assess changes and design security into new systems and changes. An audit of Cyber Security was completed by the third party internal audit provider in the latter part of 2019 and all recommendations are being adopted. The IT investment strategy is reviewed regularly with the Operating Board including security and infrastructure investment programmes.	Unchanged, having been raised last year, due to perception of external environment.

Risk	Description	Mitigation	Change in level of risk from prior year
Cost inflation	Increases in costs could adversely impact the Group's ability to deliver profit growth. This risk is currently heightened due to: ● COVID-19 pandemic increased costs to maintain social distancing, absenteeism and mitigate health and safety risks may continue, along with potential impacts on imports and supply chain costs (see also supply chain risk described above). ● The increases in the national living and minimum wages given most of the Group's colleagues are paid the national minimum or living wage.	Budgets and forecasts used by the Group include the expected impact of the national living wage and other known cost inflation (e.g. in energy prices) and, therefore, the Board's strategic planning takes these into account. Cost control remains a central focus for the business. Cost mitigation strategies are in place to offset, where possible, increases in national minimum and living wages (e.g. productivity improvements resulting from reducing/simplifying in-store processes). The Group plans to make greater use of direct sourcing to improve the margin on key products purchased. An FX hedging policy is in place to smooth the short term effects of exposure to foreign exchange rate fluctuations. The flexible nature of the Group's property leases, approximately three years on average to the next exit point, ensures the Group is able to benefit from the reductions in rental costs through the rolling renegotiation of its leases.	Potentially slightly lowered risk level due to recent securing of Brexit agreement but potential inflation risk due to wider macro-economic conditions. Assessment is that overall risk level is unchanged.
Stock management	Ineffective controls over the management of stock could impact on financial performance, whilst lack of sufficient product availability could affect sales.	Stock levels are set as part of an annual budget process with stock reviewed on a weekly basis against these budgeted levels. Perpetual Inventory counts are undertaken in stores and at distribution centres to monitor stock losses. 'Aged stock' is monitored closely with regular markdown action on slow-moving product lines.	Same risk level
Store expansion	At the end of FY20, new store rollout was de-emphasised as a pillar of the strategy. The ability to identify a set number of suitably profitable new store locations is therefore less critical than in previous years.	A store location modelling tool supports the new store assessment and sign-off process. The model has been updated during FY21. UK retail vacancy rates continue to run at high levels, providing opportunities which will be pursued selectively. Each new store opening is approved by the CEO and CFO and will be subject to particularly close scrutiny in light of tighter capex constraints.	Reduced risk level

Risk	Description	Mitigation	Change in level of risk from prior year
Seasonality of sales	The Group historically makes all of its profit in the second half of the financial year, with the peak Christmas trading period contributing substantially all of this profit. Interruptions to supply, adverse weather or a significant downturn in consumer confidence around this peak trading period could have a significant impact on the profitability of the Group.	An ongoing focus of the business is to reduce seasonality by growing the year-round appeal of the proposition. Weekly trading meetings ensure that action is taken to maximise sales based on current and expected trading conditions. The Group invested in increased capacity in its online fulfilment operation for the peak season of FY21 (November). This was successful in avoiding disruptions to service similar to those experienced in the previous two years, despite very high online demand due to most of the Group's stores being closed due to lockdown restrictions.	Risk level remains inherently high but risk mitigations in relation to the COVID-19 impact in November and December 2020 were successful.