

A collection of yellow 3D objects including a pen with a drop, a puzzle piece, a balloon, and two books, arranged around the word 'INSPIRING'.

INSPIRING

people to do

TheWorks.co.uk

Annual Report and Accounts 2021



At TheWorks.co.uk we are committed to offering our customers a wide choice of good quality, great value products through an evolving multi-channel experience.



People who do,
INSPIRING
people to do.

TheWorks.co.uk





Highlights

Financial highlights

Revenue

£180.7m

FY20¹: £225.0m

LFL sales growth²

+6.0% stores **+120.9%** online

FY20: 3.0% total Company

Non-IFRS 16 Adjusted EBITDA

£4.3m

FY20: £10.8m

PBT

(£2.8m)

FY20: (£18.0m)

Adjusted PBT

(£3.6m)

FY20: £2.4m

Basic EPS

(3.7p)

FY20: (28.3)

Adjusted basic EPS

(4.9p)

FY20: 3.0

The Financial review includes a reconciliation between GAAP and non-GAAP measures.

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 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.

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1 The "FY21" accounting period relates to the 53 weeks ended 2 May 2021 and the comparative "FY20" accounting period relates to the 52-week period ended 26 April 2020.

2 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. However, the introduction and subsequent lifting of trading restrictions throughout FY21, and the consequential disruption to sales patterns, prevents the calculation of a meaningful combined store and online LFL sales figure. Therefore, in the current exceptional circumstances, and to provide an indication of the trading performance adjusted for periods when the stores were closed, individual LFLs are quoted in respect of FY21.



At a glance

A leading multi-channel value retailer

The Works is the UK's leading family-friendly value retailer of arts, crafts, toys, books and stationery. With 527 stores nationwide and an enhanced website, our mission is to offer a unique and enjoyable shopping experience, built on core principles of value, variety and quality.

Multi-channel

We're one of the few value retailers with a full-featured online store that helps our customers to shop how they want, when they want, seven days a week.

Our website offers many exclusive products that are not available in store and our popular click & collect service offers further convenience to customers.



2,000+
web exclusives

Store estate

Our estate of 527 stores can be found in a diverse range of locations: on high streets, in shopping centres, on retail parks, in factory outlets and as concessions (typically in garden centres).



527

stores in the UK & Ireland at 2 May 2021



Product zones and own brands

Overview

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Kids' brands

- Make & Create Kids
- Explore, Learn & Discover
- Scribb it
- Squiggles and giggles

Kids

Our Kids' Zone is a "one-stop shop" for a range of kids' favourites, from the latest craze, to great value books, a wide range of toys, jigsaws and big brand games. This zone also features our important education range supporting children's development.



Stationery brands

- Scribblicious
- TheWorks.co.uk Premium
- Paper Place

Stationery

Our stationery selection includes high-quality fashion notebooks, writing sets, storage boxes and address books, all under our own brand, Paper Place. These sit alongside our big brands offer such as Bic, Helix, Xerox and Pukka. Our Scribblicious range includes trendy pens, pencils, pencil cases and storage solutions suitable for all ages.



Arts, Crafts and Hobbies brands

- Make & Create
- Boldmere
- Crawford & Black
- The Craft Place

Arts, Crafts and Hobbies

Our Arts, Crafts and Hobbies Zone comprises a wide selection of paints, brushes, art sets, paper, canvas and craft kits that cater for the needs of everyone from beginners to experts, alongside a complementary book offer to further inspire our artistic and crafty customers. Our buying expertise allows us to offer fantastic value for money across the whole range and is further supported by a well curated range extension online.



Family Gifts brands

- Corner Piece Puzzles
- Corner Piece Puzzles Premium
- Brain Maze
- Midpoint Games
- Hip Hip Yay
- Traditional Wooden Games

Family Gifts

A great selection of books are on offer, from best-selling fiction paperbacks to the very latest in non-fiction publishing, supported by an amazing range of jigsaws, fun and quirky gifts including our own range of helium balloons, fill your own hampers and bespoke eco-friendly bags for life. We have everything to make birthdays, Christmases and other family occasions really special.

Seasonal

We supplement these core everyday zones with seasonal offerings:

Our stores are home to all kinds of seasonal events and our product ranges include everything you need for Mother's Day, Easter, summer fun, "back to school" and Christmas.



Seasonal brands

- Winter Works Novelty
- Winter Works
- Out 2 Play
- Easter Wishes

6,000

products available in store

c.400

"core" lines that we permanently stock

What will you discover?



Our purpose

People who do, inspiring people to do

By “people” we mean... everyone!

- All communities • All ages
- All abilities

By “inspiring” we mean we are more than just a retailer... here to inspire the communities we serve... for example, let us show you how to:

- Learn a new skill • Discover a new or better way • Eat up a dull rainy afternoon • Put a bit of sparkle in your life • Create uniquely wonderful things • Make time for yourself • Spend meaningful time with your friends and family • Discover your hidden talent • Connect to communities and people with shared interests • Discover something about yourself or others

By “doing” we mean the following:

- **Core:** creating, reading, playing, learning...
- **Physically:** crafting, drawing, making, painting, entertaining, organising, educating, writing...
- **Mentally:** interacting, connecting, socialising, imagining, caring, informing, supporting, strengthening, calming, challenging, sensing, enjoying, expressing, satisfying, communicating, feeling...

Our proposition

Value-led

We aim to be cheaper than full price specialists in the categories we operate in, making our products accessible to all. This is underpinned by a clear value-led proposition:

- carefully selected and curated product ranges;
- the best essentials;
- good quality, great prices;
- desirable, relevant and on-trend products;
- new lines to discover weekly;
- unique, design-led own brand products;
- famous brands to complement core own brand offer;
- convenient store locations and easy to use website; and
- famous for our hero deals.

What will you discover?

Discovery

The experience of discovery is fundamental to our proposition and is one of the key ways we are differentiated from our competitors. Our buying model allows us the flexibility to be versatile and reactive, keeping our product ranges not only fresh and relevant but on trend too. Under our new purpose this now not only applies to what you will discover about our products, but also, what you will discover about yourself by interacting with us.

Convenience

Our multi-channel proposition provides our customers with an accessible, flexible and convenient way to shop to suit their lifestyle. Our store estate supports our website's click & collect service, reinforcing our multi-channel proposition – unique within value retailing.

Loyalty

Our “Together” loyalty scheme further enhances our offering, underpins our multi-channel proposition and is a strong differentiator for our brand within the value sector. Members receive points for every pound they spend in stores and online, with these points then converted to vouchers at the end of each quarter. Vouchers that are not spent expire at the end of the following quarter, encouraging more frequent visits. We also give members access to exclusive offers and run bonus points events to help increase customer engagement.

Our marketplace

Uniquely positioned as a specialist in the discount sector



We offer lower prices than the specialists and more choice than the discounters

Key market trends

Market dynamics have changed during the COVID-19 pandemic. We have seen a significant decline in high street footfall as a result of trading restrictions and an accelerated trend towards online shopping. Social distancing, enforced closures and an increase in the number of people working from home have caused a shift towards more local shopping. To what extent these are permanent shifts remains to be seen, but our varied store locations and multi-channel proposition are well positioned to adapt.

Growth of community and local shopping

If hybrid working patterns become the new normal, then we would expect to see some of the more localised shopping behaviours continue post-COVID-19. Our stores have a real presence on the high streets, shopping centres, retail parks and garden centres in which they are located. They are often heavily involved in local community activities, actively engaging with local Facebook pages and local charity fundraising. It is too early to tell whether this shift in shopping behaviour will continue as restrictions ease further. However, our 500+ stores are found in a diverse range of retail locations and are well placed to support local shopping in smaller high streets and shopping centres, as well as destination trips to retail parks and larger towns, cities and shopping centres.

Accelerated shift online

During the financial year, as a result of lockdowns, the UK saw a significant shift to online shopping across most categories, initially driven by non-essential retail being forced to close. The Works' online platform fared well in this environment with an annual increase in website users of 43 per cent. It is unlikely that the high levels of penetration during the pandemic will be retained; however, the adoption of and familiarity with technology, plus the formation of new buying habits, mean that some of this shift will be permanent, likely accelerating online penetration by three to five years in one year. Our multi-channel offer, with a new web platform (which has improved the customer experience), increased fulfilment capacity and a large customer base, means we are well placed to benefit from this change in consumer behaviour.



+43%

increase in visitors to our website

+120.9%

growth in online sales



Chair's statement

A leading discount retailer

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



Dean Hoyle
Chair

Introduction

A separate announcement has been issued today noting my intention to stand down as Chair at the forthcoming Annual General Meeting. Since I joined The Works as Chair, 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-19 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 returns 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, their continuing hard work and, perhaps most of all, their spirit over the last seven years. 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 increase 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 Works' 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 and 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 and 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 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 a number of exciting growth opportunities ahead and remain fully supportive of this business, its leadership team and all of its incredible colleagues.

Dean Hoyle

Chair

20 July 2021

Our values

We are Crafty, Caring and Can-do. We are... people who do.

We are
Crafty



Crafty – For us, it's about our ability to be creative and agile; we are able to adapt to change and be smart about what we do, with the resources we have. It's what makes us unique.

Caring – We care about each other as one team. We care about our customers, our products and every penny we spend. Caring about the things we do is at the heart of our work ethic.

We are
Caring



We are
Can-do



Can-do – Predicting, reacting, improving and bringing all hands to deck. Whatever the situation, we rise to it because of the can-do spirit and resilience we all share.

Read more about our values in our Sustainability report on page 32.





Business model

Strategy

- Four-pillar strategy for growth

Suppliers

- Over 500 supplier relationships
- UK, Europe and Asia
- Close collaboration

Brand value

- Own brands developed in house

People

- Over 3,600 colleagues, key to the success of our business
- Loyal and dedicated
- Highly engaged

Infrastructure

- Store network
- Online store
- Centrally located support and distribution centre
- IT infrastructure – investing to ensure scale and efficiency

What we do

How we are able to offer our customers a wide variety of good quality, great value products



Design and innovate

- Identifying and bringing trends to the UK market
- Unique own brand products developed in conjunction with suppliers and in-house design studio
- Regular “newness” refreshes product offering – c.400 core SKUs with over 10,000 new lines introduced each year
- Four clear product zones: Kids’ Stationery; Arts, Crafts and Hobbies; and Family Gifts, plus seasonal and regional offerings

21

own brands

Underpinned by our values and behaviours

Our values

We are
Crafty



We are
Caring



We are
Can-do



Read more about our values on page 33.

**Source and distribute**

- Experienced buying team
- Relationships with over 500 suppliers
- Open for business – an outlet for “clearance” parcels of goods
- Work closely with suppliers to ensure product safety and quality control
- Warehousing and store distribution undertaken from own 157,000 sq ft facility in Coleshill, Birmingham
- Online orders fulfilled by third party or picked in store

c.500
suppliers

157,000
sq ft warehousing and
distribution facility

**Sell to customers through convenient channels**

- 527 stores across the UK & Ireland
- Website – 24/7 trading and extended ranges
- Marketplaces (e.g. Amazon, eBay)
- Click & collect – linking stores and online

527
stores

Outputs

24.8m

visitors to our website
+43% from last year

Engaged colleagues

13th

in the Best Companies survey
Up five places from last year

- 2* Best Companies accreditation, the second highest standard for outstanding commitment to workplace engagement
- Placed on the Best Companies 2021 25 Best Big Companies to Work For list for the third consecutive year

Investment in communities

- £1.0m raised in partnership with CRUK last year

3,600

Provided employment for over 3,600 colleagues last year

Our behaviours

We are
Open



We are
Creative



We are
Focused



We are
Fun





Chief Executive's statement

Building on our purpose

"It has been a challenging year, but I am really pleased that, because of our quick action, careful cost management and "can-do" culture, The Works has emerged as a stronger business. We are now ready to execute our refocused strategy and the prospects for the business have never been greater."



Gavin Peck
Chief Executive Officer

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. We have learnt 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-19), 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 six months of the year, we could not have imagined delivering the performance that we did. In the end, the FY21 result was close to 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 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 from 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 rollout 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.



Encouraging the love of books

The Works continues to play an important role in ensuring books are easily accessible to all and that we continue to inspire the love of books from an early age. Books will always be an important part of our evolving proposition and our new relationship with Nielsen data tells us that we represent nearly 10 per cent. of the volume of consumer books sold in the UK. Whether it's the latest cookbook, the book to accompany the hottest new Netflix series, the biggest names in adult fiction or our wonderful selection of kids' books, our great value offer gets stronger and stronger. We have an open and collaborative relationship with all of the major publishers in order that the range selected resonates well across our broad customer demographic. Put simply, we love books!



Chief Executive's statement continued

Evolving our strategy – being better, not just bigger continued

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 focusing 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 per cent. 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 we therefore 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 historical 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 twelve 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 am 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.

Supporting mental health and wellbeing

Core arts and crafts ranges, books and jigsaws were popular throughout FY21, 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.

Adult jigsaws grew +100% – we focused on great quality and incredible value and built on our premium and branded ranges.



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 being better, not just bigger strategy. In 2020 we welcomed several new colleagues who between them bring a breadth and depth of retail experience: Dean Hawkrigge 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.

I know that colleagues will join me in saying a fond farewell to Dean Hoyle who is stepping down as Chair 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.

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.

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, Diversity and Inclusion, 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, with 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 our business pulled together during it – giving us a solid foundation for building our future growth. We have learnt 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 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



Our strategy

Our evolved strategy for future growth

COVID-19 hindered the rollout of our strategy, but provided the opportunity to further refine it and strengthen the team to deliver it. We have refocused our strategy to evolve the business into a better, not just bigger version of itself.

Our strategic aims

Focus for FY22

01

Develop our brand and increase our customer engagement

- Clearly define our brand and customer proposition including reviewing the role of our loyalty programme
- Bring our brand and customer proposition to life (internally and externally)
- Grow our customer base
- Improve customer engagement, including defining the role of our loyalty programme
- Develop customer insight and analysis to drive decision making
- Continue to develop our product ranges and trading strategy aligned to our customer proposition

02

Enhance our online proposition

- Improve our online customer experience through improved layout, navigation and functionality
- Develop our online range extensions, aligned to our customer proposition and to drive profitable, incremental sales growth
- Increase our online fulfilment capacity, capability and efficiency

03

Optimise our store estate

- Up to ten new store openings, including selective relocations
- Develop a strategy for our existing store refits, progressively bringing our estate up to an "ideal store"
- Drive property costs lower, whilst retaining flexibility

04

Drive operational improvements

- Improve our import supply chain
- Refine our approach to range planning and management of stock and intake
- Enhance the way we allocate and replenish stock in our customer channels
- Drive better ranging, availability and merchandising of our ranges (particular focus on "core")
- Improve space planning and merchandising in our stores



Key performance indicators

Measuring our performance

We use five key performance indicators to monitor the performance of the Group against our strategy. We previously reported the net number of new stores opened in the period as a non-financial KPI; however, as our strategy has evolved and we are focusing on optimising the store estate, we are no longer measuring this as a KPI.

The definitions of these KPIs and our performance against them are detailed below. All of the non-GAAP financial measures detailed can be calculated from the GAAP measures included in the financial statements, as outlined in the notes to the financial statements. Commentary on these KPIs is included in the Financial review.

Pre-IFRS 16 Adjusted EBITDA

£4.3m

FY21	£4.3m
FY20	£10.8m
FY19	£13.9m
FY18	£13.2m

Definition

Represents profit for the period before IFRS 16, net finance costs, taxation, depreciation and amortisation, loss on disposals of property, plant and equipment and Adjusting items. Adjusting items are gains or losses incurred in a period which are not expected to be recurring.

Adjusted (loss)/profit before tax

(£3.6m)

FY21	(£3.6m)
FY20	£2.4m
FY19	£6.9m
FY18	£4.2m

Definition

Represents profit for the period before taxation and Adjusting items. Adjusting items are gains or losses incurred in a period which are not expected to be recurring.

Adjusted diluted earnings per share

(4.9p)

FY21	(4.9p)
FY20	3.0p
FY19	9.2p
FY18	7.2p

Definition

Calculated by dividing the Adjusted profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period (including dilutive share options). Adjusted profit is before the impact of Adjusting items, which are gains or losses incurred in a period which are not expected to be recurring.

Total sales growth

(19.7%)

FY21	£180.7m
FY20	£225m
FY19	£217m
FY18	£192m

Definition

The percentage year-on-year change in total sales of the Group.

Like-for-like sales growth

+6.0% stores

Like-for-like sales growth

+120.9% online

FY21	+6.0%	+120.9%
FY20	+0.7%	
FY19	+3.0%	
FY18	+4.7%	

Definition

The Group does not typically quote separate LFL figures for stores and online. However, the disruption to sales patterns during FY21 prevents the calculation of a meaningful combined store and online LFL sales figure. Therefore, in the current exceptional circumstances, individual LFLs are quoted in respect of FY21. These are not stated on a basis that is directly comparable with the combined figures for prior years. 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.



Financial review

Strengthened foundations will support delivery of the plan

The reduction in EBITDA compared with FY20 does not tell the full story: the underlying performance of the business improved; meanwhile, the balance sheet is stronger than at the beginning of FY21, making the business more financially resilient.



Steve Alldridge
Chief Financial Officer

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 5 to the financial statements, 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 over the page 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 historical 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 £180.7m (FY20: £225.0m). 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 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 merely 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%)

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 COVID-19 related periods of closure) 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 on the following page. Most of the capital cost of opening the new stores was funded via capital contributions from landlords, minimising the impact on the Group's cash flow. The new stores are trading successfully, with sales levels above their financial appraisal targets.



Financial review continued

Revenue analysis continued

Store numbers	FY21	FY20
Number of stores at the beginning of the period	534	497
Opened in the period	4	51
Closed in the period	(11)	(14)
Number of stores at the end of the period	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.

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 per cent. (FY20: 61.8 per cent.).

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 per cent.

	FY21 £m	FY20 £m	Variance £m	Variance %
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 subclassifications shown in the table below, which are consistent with how these items are analysed internally.

Pre-IFRS 16 cost of sales analysis	FY21		FY20 (Restated - Note 4)			
	£m	% of revenue	£m	% of revenue	£m change	% change
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	32.7	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
IFRS 16 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

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 per cent. 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 and 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 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 in respect of FY21, 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 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.

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

Expenses

Expense comparison:	FY21		FY20		£m change	% change
	£m	% of revenue	£m	% of revenue		
Pre-IFRS 16, 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
IFRS 16 impact (non-Adjusting)	–	–	–	–	–	–

Distribution costs per statutory accounts	15.1	8.3	12.7	5.6	(2.4)	(19.2)
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Expense comparison:	FY21		FY20		£m change	% change
	£m	% of revenue	£m	% of revenue		
Pre-IFRS 16, 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)
IFRS 16 impact (non-Adjusting)	(0.4)	(0.2)	(0.4)	(0.2)	–	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
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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 support 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.



Financial review continued

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 IAS 17 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 15 to the financial statements.

Adjusting items

Adjusting items before tax in the Period were immaterial, amounting 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 6 to 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 40 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 (c) of the financial statements.

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 £3.3m).

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 Adjusting 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 financial statements.

Capital expenditure

Capital expenditure amounted to £2.4m in the year (FY20: £8.7m), which is broadly in line with the £3.0m 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 per cent.

	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 also refer to Note 17 of the financial statements.



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.

Cash flow

The table shows a summarised non-IFRS 16 presentation cash flow to aid the description of the significant cash flow movements during the Period. The financial statements include a statutory Consolidated cash flow statement.

	FY21 £m	FY20 £m	Variance £m
Cash flow 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 £3.7m relating 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 an 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 historical last twelve months' (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) and 20 (Borrowings) of the financial statements. In addition, Note 25 (Financial risk management) 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 it 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



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. Further details of the governance structure are set out in the Corporate governance report on page 43.

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 as at the date of the Annual Report are set out below, together with details of how these are currently mitigated.

Where appropriate, the impact of these risks occurring has been considered when developing the scenarios tested as part of the financial viability statement as set out on page 28.

Risk management framework



Change in level of risk from prior year

- + New risk
- ^ Increased risk
- No change
- v Reduced risk

Risk description	Mitigation	Change in level of risk from prior year
COVID-19		
<p>COVID-19 created an unprecedented challenge. We believe the risks to the Group posed by the COVID-19 pandemic are as follows:</p> <ul style="list-style-type: none"> 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. 	<p>The health and wellbeing of colleagues, customers and wider communities is the Board's overriding priority.</p> <p>Events are closely monitored by the Board, which evaluates the potential impacts and designs appropriate response strategies.</p> <p>The Group maintains a prudent approach to costs; however, a number of additional temporary measures were also taken at the beginning of the pandemic to reduce costs and/or conserve cash, including:</p> <ul style="list-style-type: none"> use of all applicable government support schemes; reducing store rent payments whilst stores were closed, wherever possible, through co-operation 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); and minimised discretionary operational expenditure. <p>The Group has worked with its third-party logistics partner to increase capacity safely, which worked well during peak trading in November and December 2020.</p> <p>The Group has implemented changes to stores, the distribution centre and the 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).</p>	<p>Reduced risk level since date of previous report.</p> <p>The Group has successfully managed through what appears to have been the period most intensely affected by the pandemic.</p> <p>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.</p>



Risk description	Mitigation	Change in level of risk from prior year
Finance		
<p>Insufficient liquidity available and/or insufficient headroom in banking facilities. Potential for breach of banking covenants if financial performance is significantly worse than planned.</p> <p>Availability of credit insurance to suppliers may be reduced or removed resulting in an increased cash requirement.</p>	<p>Covenant headroom monitored and forecast covenants calculated on a monthly basis and reported to the Board.</p> <p>Strategic emphasis now more on costs and efficiency than previous store rollout plan, reducing risk.</p> <p>Constructive dialogue maintained with suppliers regarding payment terms.</p> <p>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.</p> <p>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 Group's bank has since adjusted the covenant to provide more headroom.</p> <p>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.</p>	Reduced risk level.
Market		
<p>The Group generates most of its revenue from the sale of books, toys, arts and crafts 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.</p> <p>Failure to effectively predict and respond to changes could affect the Group's sales and financial performance.</p> <p>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 high street which could adversely affect sales if the Group is unable to offset this by gaining a greater share of the available business.</p>	<p>Ongoing focus on development of product offer helps differentiate The Works, bringing unique, quality, products to market at great prices.</p> <p>Experienced trading team monitors emerging trends and has a track record of responding to changing consumer tastes.</p> <p>Competitors' propositions closely monitored, with key developments discussed at weekly trading meetings and at Board level on a regular basis.</p> <p>Customer feedback is monitored and reported against regularly.</p> <p>Sales data and various online feedback channels are used to drive purchasing and marketing decisions.</p> <p>Sales patterns indicate that the Group's retail estate continues to be relevant to customers, as 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.</p> <p>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.</p>	Same risk level.



Principal risks and uncertainties continued

Risk description	Mitigation	Change in level of risk from prior year
Economic environment		
<p>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.</p> <p>This risk is currently heightened due to the potential consequential impacts of COVID-19.</p>	<p>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.</p> <p>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.</p> <p>The senior management team has significant relevant experience.</p>	<p>Same risk level.</p> <p>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.</p>
Brand and reputation		
<p>"TheWorks.co.uk" is the Group's key brand asset. Protecting and enhancing the Group's brand and reputation are vital to its success.</p> <p>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.</p>	<p>The values which guide how the Group seeks to conduct itself are well communicated to colleagues and the senior management team leads by example.</p> <p>Intellectual property guidance and education are provided to design and sourcing teams.</p> <p>Customer and market research focuses on understanding brand perception.</p> <p>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.</p> <p>The Group operates an in-house product quality assurance team to work with suppliers to ensure product quality, safety and ethical production.</p> <p>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.</p> <p>An Environmental, Social and Governance (ESG) steering group has been set up during FY21 to support the business strive to lead and operate on sound moral principles, whilst remaining true to its mission, values and behaviours. It will ensure that ESG responsibilities are monitored, as well as driving its "Giving Something Back" agenda.</p>	<p>Same risk level.</p>



Risk description	Mitigation	Change in level of risk from prior year
Supply chain		
<p>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 goods from overseas and potential disruption at various stages of the supply chain.</p> <p>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.</p> <p>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.</p> <p>Suppliers may fail to act or operate in an ethically appropriate manner.</p>	<p>An experienced buying team is responsible for the sourcing of products, which maintains strong relationships with key suppliers.</p> <p>The supplier base is continually reviewed. Supply options are diversified and/or changed where needed, providing flexibility and reducing reliance on individual suppliers.</p> <p>Tighter controls have been introduced throughout the import process, supported by a recently introduced new freight forwarder, using improved systems.</p> <p>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.</p> <p>A recently established environmental, social and governance (ESG) steering group will monitor the Group's ESG responsibilities and compliance.</p> <p>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.</p> <p>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 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.</p> <p>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 UK, 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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Similar overall risk level.</p>



Principal risks and uncertainties continued

Risk description	Mitigation	Change in level of risk from prior year
Loss of key personnel		
<p>The Group's strategy and long-term success are dependent on the quality of the Board and senior management team.</p> <p>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.</p>	<p>Succession plans continue to be developed and are discussed at Nomination Committee meetings.</p> <p>Objectives and development programmes are currently being put in place to support future leaders.</p> <p>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.</p> <p>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. Further details can be found in the Remuneration report on page 55.</p>	Same risk level.
Business continuity		
<p>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.</p>	<p>A disaster recovery plan and strategy is in place.</p> <p>Disaster recovery dry run exercises are undertaken periodically.</p> <p>The Group maintains appropriate business interruption insurance cover.</p> <p>An emergency generator at the store support centre insulates it from the effect of power cuts.</p> <p>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 if a problem arises. This team has recently been strengthened.</p>	Same risk level.
Regulation and compliance		
<p>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, and Environmental and Listing Rules.</p> <p>Failure to comply with these regulations could lead to financial claims, penalties, awards of damages, fines or reputational damage which, in some cases, could be material and could significantly impact the financial performance of the business.</p>	<p>The Group's CFO and Company Secretary oversee regulatory compliance with support from external advisors.</p> <p>Senior management team members are aware of the key compliance requirements within their business units and liaise with the CFO and external advisors to identify and manage issues.</p> <p>The Group has a number of policies and procedures governing behaviours in all key areas, some addressing mandatory requirements (e.g. anti-bribery and corruption, and adherence to National Living Wage requirements) and others adopted voluntarily.</p> <p>A Whistleblowing Policy and procedure is in place, allowing colleagues to confidentially report any concerns or inappropriate behaviour.</p> <p>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.</p> <p>An outsourced internal audit function is used as required to focus on key areas of control which are judged to warrant review.</p>	Same risk level.
IT systems and cyber security		
<p>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.</p>	<p>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.</p> <p>Support contracts, with appropriate SLAs, are in place for all third-party systems with in-house systems supported by an experienced development team.</p> <p>Operational practices for maintaining security have been reviewed with revised and more frequent patching cycles adopted.</p> <p>More frequent vulnerability scans and penetration tests are used to validate the robustness of security.</p> <p>A Design Review Group meets weekly to assess changes and design security into new systems and changes.</p> <p>The IT investment strategy is reviewed regularly with the Operating Board including security and infrastructure investment programmes.</p>	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 ⬇️		
<p>Increases in costs could adversely impact the Group's ability to deliver profit growth.</p> <p>This risk is currently heightened due to:</p> <ul style="list-style-type: none"> COVID-19 pandemic related increased costs to maintain social distancing, and mitigate health and safety risks, potentially continuing, along with potential impacts on imports and supply chain costs (see also supply chain risk described above); and the increases in the National Living and Minimum Wages given most of the Group's colleagues are paid the National Minimum or Living Wage. 	<p>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.</p> <p>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).</p> <p>The Group plans to make greater use of direct sourcing to improve the margin on key products purchased.</p> <p>An FX Hedging Policy is in place to smooth the short-term effects of exposure to foreign exchange rate fluctuations.</p> <p>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.</p>	<p>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.</p>
Stock management ⬇️		
<p>Ineffective controls over the management of stock could impact on financial performance, whilst lack of sufficient product availability could affect sales.</p>	<p>Stock cover levels are set as part of an annual budget process with stock cover by product group, and at a total level, reviewed on a weekly basis against these budgeted levels.</p> <p>Perpetual inventory counts are undertaken in stores and at distribution centres to monitor stock losses.</p> <p>"Aged stock" is monitored closely with regular markdown action on slow-moving product lines.</p>	<p>Same risk level.</p> <p>The risk level is expected to reduce during FY22 and beyond as the Group implements its strategy, which includes improvements to its stock management processes and capabilities.</p>
Store expansion ⬆️		
<p>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 not critical to the Group's success.</p>	<p>A store location modelling tool supports the new store assessment and sign-off process. The model has been updated during FY21 to support decisions in relation to the ongoing management of the store portfolio.</p> <p>UK retail vacancy rates continue to run at high levels, providing opportunities which will be pursued selectively.</p> <p>Each new store opening is approved by the CEO and CFO and is subject to particularly close scrutiny in light of tighter capex constraints.</p>	<p>Reduced risk level.</p>
Seasonality of sales ⬆️		
<p>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.</p> <p>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.</p>	<p>An ongoing focus of the business is to reduce seasonality by growing the year-round appeal of the proposition.</p> <p>Weekly trading meetings ensure that action is taken to maximise sales based on current and expected trading conditions.</p> <p>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.</p>	<p>Risk level remains inherently high but risk mitigations in relation to the COVID-19 impact in November and December 2020 were successful.</p>



Viability statement

In accordance with Provision 31 of the UK Corporate Governance Code dated July 2018 (the "Code"), the Directors have assessed the prospects and viability of the Group over a three-year period, taking into account the Group's current position and the potential impact of the principal risks documented in this report.

The Directors consider that three years is an appropriate planning horizon for the following reasons:

- retail market trends are rapidly evolving, including the way customers shop and the impact of new technologies. The uncertainty as to how the market will have evolved more than three years into the future is expected to be too great to enable plans extending beyond this period to be meaningful;
- uncertainty exists in relation to the wider economy and its potential impact on consumer demand and shopping habits, particularly as we emerge from the COVID-19 pandemic; and
- the average remaining term of the Group's property portfolio leases is approximately three years.

The text which follows closely reflects the text in Note (1) (b) (i) of the financial statements, relating to the preparation of the accounts on a going concern basis.

The Group operates a three-year plan (covering the FY22 to FY24 financial years/periods), referred to as the "Base Case" scenario. In addition, two "severe but plausible" downside case sensitivities have been prepared to support the Board's conclusions regarding viability, 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 is considered to represent a less likely scenario than the Management downside, but is an additional point of reference. These models are described in more detail below.

In assessing the Group's viability 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; and
- 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 viability of the Group.

Financial position and bank facilities

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 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 facility includes financial covenants in relation to the level of last twelve months' rolling (LTM) 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 historical 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, 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 of the Strategic report, on pages 22 to 27, 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 forecast 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 forecast 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 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 FY21 at approximately \$1.29 and the plan reflects this. The plan assumes no FX risk during FY23 or FY24;
- 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; and
- 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).

Under the Base Case scenario assumptions the Group would have sufficient financial resources to continue to be viable over the forecast 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 per cent. 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 in respect of FY23 and FY24;
- 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 per cent. reduction in Q4 of FY22, with a 0.5 per cent. reduction during the preceding and 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; and
- 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. 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, in the fourth quarter of the 2021 calendar year and 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 and 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 mitigating action such as described above in relation to the Management downside.

For FY23 and FY24, 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 to February 2022. As with the conclusion with regard to the Management downside scenario, the Board's expectation is that the business would continue to have adequate resources to continue in operation.

Conclusion regarding viability

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 its viability in the event of further COVID-19 related disruption.

Based on all of the above considerations, the Directors believe that the business will remain viable for at least the forecast period.



Section 172 statement

Ensuring all our stakeholders are served

Key Board decisions during the year

1.

Web replatforming

Decisions connected to the timing of the move to a new platform for the commercial website.

Considerations

- The Board considered the balance of financial risk versus operational and reputation risk in respect of “go-live” timing, and agreed to delay the switch until stores had reopened.

2.

Customer and employee safety

Reopening of stores following COVID-19 enforced closures, and ensuring a COVID-safe environment for team members and customers.

Considerations

- The health, safety and wellbeing of team members and customers.
- Availability of PPE and hand sanitisers, and physical measures (including screens and signage).
- Maximum customer number per store to maintain social distancing, and appropriate staffing numbers (and training).
- Long-term reputation impact from both customer and staff perspective if measures were not appropriate.

3.

Investment in online fulfilment

Maximise online fulfilment opportunity to meet increased demand during COVID-19 period and ensure efficiency thereafter.

Considerations

- Ensuring availability of stock and efficiency of fulfilment operation to satisfy the expectations of online customers and drive profitable web sales.
- Ensuring return on investment, and that the increase in fulfilment capacity would deliver long-term as well as near-term benefits.

Our People

Our people are key to our success, and communication and engagement with the workforce is vital to the business. Engagement with colleagues remains a key factor, and as such considering the views and wellbeing of our employees is front of mind in Board decisions.

Key issues:

- Health and wellbeing
- Safe working environment
- Support and information
- Development opportunities
- Retention and engagement

Our response:

We engage with our colleagues regularly through various methods, including an annual colleague engagement survey, regular colleague forums, videos and written updates, our closed The Works Facebook Family group and team video calls. These forms of communication were essential throughout the COVID-19 pandemic to ensure that our colleagues felt connected and supported. Feedback from the annual Best Companies engagement survey, undertaken in October 2020, was positive, with particular praise for communications through COVID-19.

The Board continues to focus on organic growth through the establishment of a diverse talent pipeline. Through listening to employees across the business, the Board’s aim is to reduce labour turnover and further support colleague development. To fully ensure the Board is able to understand the areas impacting colleagues, the People Director regularly attends Board, Remuneration Committee and Nomination Committee meetings.

Where possible prior to the pandemic, individual Directors would interact directly with senior management and store colleagues on regular site visits. These visits have restarted since the most recent lockdown restrictions were lifted.

Further information is set out in the Corporate governance report on page 43.

Customers

The principle of providing our customers with a choice of good quality products at great value for money is a key consideration for the Board in its decision making.

Key issues:

- Customer experience
- Safety and social distancing
- Understanding customer needs
- Maintaining high standard of product offering
- Reliable service

Our response:

During the period of store closures and COVID-19 restrictions, the Board focused on how the Company could continue to provide customers with a compelling product offering (online and in stores when open), and a safe environment in which to shop.

To mitigate the impact of COVID-19 for our customers, the Board supported the Company increasing its engagement with customers through social media. A range of measures were implemented to protect customer safety and promote social distancing in order to minimise the risk of COVID-19 spread in our stores.

Going forward, store visits have recommenced, thereby allowing individual Directors to understand the customer experience, including changes brought about by COVID-19, and engage with, and listen to feedback from, customers directly.

Additionally, the Trading Director, the Retail Director, the Digital Director and members of the marketing team communicate regularly with the Board, ensuring that Directors can understand the opinions and views of our customers.

Further information is set out in the Sustainability report on pages 32 to 39.



Under Section 172(1) of the Companies Act 2006, a director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequence of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;

- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

The disclosure on these two pages describes how the Directors of TheWorks.co.uk plc have had regard to the matters set out in Section 172(1)(a) to (f) and forms the Directors' statement under Section 414CZA of the Companies Act 2006.

Both individually and collectively, the Directors believe that they have acted in the way they consider, in good faith, would be most likely to promote the

success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in Section 172(1)(a) to (f) of the Companies Act 2006) in all decisions taken by the Board during the 53 week Period ended 2 May 2021.

In this report the Board has identified and highlighted our key stakeholder groups, with cross-references to relevant disclosures included elsewhere in the Annual Report. This section also includes key decisions of the Board following the significant impact of COVID-19 on the Company as a whole, and seeks to demonstrate the Board's response whilst taking into account its Section 172 duties.

Suppliers

The Company has more than 500 suppliers, and engagement with them is led by the Trading Director and the buying team.

Key issues:

- Long-term relationships
- Fair treatment
- Responsible business practices

Our response:

The Board is fully aware of the importance of maintaining relationships with suppliers, and that long-term relationships are crucial to the sustainability of the business.

Under normal circumstances, this engagement includes face-to-face meetings with suppliers in China, the UK and the EU, factory visits and attendance at trade fairs. Such meetings have been suspended during the COVID-19 pandemic, but will be re-established as soon as it is appropriate to do so.

Our quality assurance team works closely with suppliers to ensure product safety and quality control. The Trading Director reports regularly to the Board, including updates on supplier matters and relationships. The Board and Audit Committee also review the Group's payment practices to ensure that suppliers are treated fairly, and that suppliers are adhering to the Group's other supplier governance policies.

Supplier relationships and interests were factors considered by the Board in the course of its decision making in relation to store closures and trading conditions resulting from the COVID-19 pandemic.

Further information is set out in the Sustainability report on pages 32 to 39.

Community and the environment

The Board is committed to the communities in which we operate, and the Company takes great pride in being actively part of those communities and contributing positively.

Key issues:

- Employment opportunities
- Retention of jobs
- Environmental management
- Reputation

Our response:

The Board recognises that the Company's operations impact the environment, and our objective is to reduce our environmental impact primarily through waste recycling, packaging and seeking to minimise energy use.

Our reputation within the communities in which we operate is of paramount importance to the Board.

Community impact and environmental issues are factors taken into account by the Board in strategic decision making.

We have established an Environmental, Social and Governance (ESG) steering group chaired by the CEO to lead the Company's response to relevant ESG matters.

We have partnered with Cancer Research UK since 2016, and this year reached our £1m fundraising target.

Recognising the importance of mental health, particularly in light of the last year, we entered into a new tri-nation partnership with three leading mental health charities – MIND, SAMH and Inspire.

Further information is set out in the Sustainability report on pages 32 to 39.

Shareholders

The Board recognises the importance of treating all members fairly and monitors and views shareholder communication as paramount to the long-term success and growth of the Company.

Key issues:

- Strategy and delivery
- Sustainable returns
- Regular communication and transparency

Our response:

The Board monitors the views of the Company's shareholders through updates from the CEO and CFO on investor and analyst calls and meetings so that their views and opinions can be considered by the Directors when setting strategy.

The Chair and Committee Chairs are available to shareholders to discuss specific matters as they arise.

Full investor information, such as the Company's announcements, results and presentations, is easily accessible from our website with a dedicated and comprehensive investor section.

As a result of the pandemic and subsequent Government restrictions, and to ensure shareholder safety, the Board regrettably agreed that the Company's 2020 AGM would be held as a closed meeting. A facility for shareholders to submit questions in advance of the AGM was provided. No questions were received.

Further information is set out in the Corporate governance report on page 43.



Sustainability report

We are Crafty, Caring and Can-do We are... People Who Do

Creating a sustainable economy and transitioning to net zero is the challenge of our times, and the responsibility rests collectively on governments, industries, and the general public. As a retail business we recognise our role in this effort, as well as our responsibility to be socially conscious and maintain high standards of governance.

Whilst reviewing our business operations during the pandemic we took the opportunity to review our Environmental, Social and Governance (ESG) responsibilities and impact. Although the nature of our business means that we will not be able to completely eradicate our use of the world's resources, we recognise our duty to find the right balance. Whilst we have made good progress over the last year there is much more we can do and the business has therefore started to put more formal structures in place. This includes the formation of an ESG steering group, to support the business as we strive to lead and operate on sound moral principles, keeping true to our mission, values and behaviours, and to monitor our ESG responsibilities.



People

In a challenging and competitive retail environment, our colleagues are fundamental to the delivery of great customer service, and are The Works greatest asset. Our people are what makes The Works so special. We have to offer something over and above, something meaningful, to be able to attract and retain good people in order to be a success. Our culture is the key to that.



Four key sustainability pillars have been identified as part of the ESG steering group: Giving Something Back, Diversity and Inclusion, Health and Wellbeing and Environmental. Underpinning the four areas of focus is our commitment to meeting the laws and regulations applicable to our business. Individual work streams have been set up under these pillars with the support of Operational Board sponsors and representatives in subcommittees across the business. As the work streams evolve we will develop these focus areas into a longer-term sustainability strategy.





This last year has been incredibly challenging; not only did we have to navigate through the global pandemic, but had to do so whilst transitioning through some leadership changes. We have always ensured that leadership visibility, effective communication and continuous monitoring of our culture are in place to ensure that we maintain the invaluable goodwill of our loyal colleagues. This approach is what we believe has contributed to improving our year-on-year engagement score and achieving our 2* Best Companies accreditation, the second-highest standard for outstanding commitment to workplace engagement, and being placed on the Best Companies 2021 25 Best Big Companies to work for list for the third year running. We are extremely proud to have placed 13th in the national listings, up five places from 2020, and this is testament to each and every colleague who plays a part in our success.

For three years now we have sought the views of our colleagues through our annual colleague engagement survey, "Make A Difference". We saw an incredible number of our colleagues partake in our latest engagement survey, with 82 per cent. completing the full survey, giving us a diverse colleague voice across the business.

What the results validate is the playful culture we have, but with a clear purpose. Our colleagues love retail, feel passionate about our offering and are proud to show it off to customers, old and new.

As well as having a dedicated people team to ensure colleague voice is a priority, we receive feedback throughout the year from colleagues in a number of ways:

Surveys, meetings (making use of video calls through the pandemic), colleague forums, external benchmarking, store visits, colleague data and insight, as well as through our private "The Works Family Facebook Group" which 50 per cent. of our colleagues engage in.

New values and behaviours

We are continuing to work on embedding our employer brand and what makes our culture unique, ensuring this fits with our overall vision and purpose. We are trying to capture the sense of work ethic and the spirit that The Works values, and we have learned a lot more about this during the pandemic with our values really coming to fruition.

We have created a People Promise for our future and current colleagues, with three core values, and we have streamlined our behaviours to four (from an initial ten) allowing us to set expectations and for our managers to hold themselves and their teams accountable in displaying them. This framework sets expectations on how to be successful within our business.

People Promise

"If you can work as one team to inspire our customers, we'll go all out to inspire you."

Values



Crafty: for us, it's about our ability to be creative and agile, we are able to adapt to change and be smart about what we do, with the resources we have. It's what makes us unique.

We care about each other as one team. We care about our customers, our products and every penny we spend. **Caring** about the things we do is at the heart of our work ethic.

Predicting, reacting, improving and bringing all hands on deck. Whatever the situation, we rise to it because of the **Can-do** spirit and resilience we all share.

Behaviours



Our behaviours are the things we do that bring our values to life. We want our values and behaviours to be easy to recall, simple to understand and universally recognisable. It's the work ethic that unites us.

The sense of family that comes from working in our business and the variety and fun that a career in retail can provide is what our culture is based on. We believe more than ever that we are creating something special that our colleagues (and future colleagues) want to be part of despite being in a competitive and ever challenging environment – we stand out, for all the right reasons.



Sustainability report continued



Giving Something Back

Giving Something Back is not only a part of our ESG responsibilities, but also part of our culture. At The Works, making a difference in society is something that comes naturally to our caring family of colleagues. When we think of Giving Something Back we think of the charity partnerships that we proudly support, the local causes that we advocate and raise funds for, and our communities (both internal and external).

4.34¹

was the average "Giving Something Back" score in our 2019 colleague engagement survey

4.46¹

is where we placed in the same factor for 2020

2.8%

is the year-on-year increase. We will target an increase each year as a measure of improvement in Giving Something Back in our employee engagement survey.

¹ Please note, factors are marked on a scale of 1–7, 1 being strongly negative, 7 being strongly positive.

Cancer Research UK (CRUK)

Since the launch of our commercial and fundraising partnership with CRUK in August 2016 we have introduced a series of CRUK products, sold CRUK materials on behalf of the charity, and been involved in a range of fundraising activities.

This year marked a significant milestone for our CRUK partnership. Our business reached £1m in funds raised. Despite the challenges that national closures posed we were still able to raise £149,990 this financial year through product and colleague activity.

Activity	Total raised FY21 (£)
Sales of CRUK products	
Including bookmarks, tissues, bag levy, festive cards and fold-up bags	92,444
Colleague activity	
Including online fundraising, Pennies from Heaven, Give As You Earn and fundraising	23,052
Product fundraising	
Including pin badges and WCD unity bands	22,494
Other income	
Stock donation in response to the pandemic	12,000



"We would like to take this opportunity to say a huge thank you for all the fundraising efforts you have made throughout this year. You always go above and beyond our expectation and we look forward to the next twelve months."

Emily Dunsmore
Partnerships Manager,
Cancer Research UK



Supporting

**CANCER
RESEARCH
UK**

**Mind, Scottish Association of Mental Health (SAMH) and Inspire**

The coronavirus pandemic continues to have a devastating impact on people's mental health, with new mental health problems arising and existing problems worsened. Determined to make a difference for our colleagues and customers, we have joined the fight for mental health through the launch of our strategic tri-nation partnership with mental health charities Mind, SAMH and Inspire.

This partnership was introduced in early FY22. We have committed to a fundraising target of £200,000 and hope to continue working alongside this trio long term.



“We are delighted that The Works has chosen to support Mind, Inspire and SAMH. Now, more than ever, people across the UK need the support of mental health charities and the vital services and information that we provide. The money raised by The Works’ staff through a variety of exciting fundraising events will help us carry out our essential work, supporting the one in four people who experience mental health problems in any given year. We are so excited to begin this partnership and we look forward to connecting with The Works’ charity champions, employees and customers.”

Jonathan Tebble

Corporate Partnerships Account Manager
Mind





Sustainability report continued

Payroll Giving

In August 2019, we collaborated with the Payroll Giving team to launch a colleague giving scheme, offering both Pennies from Heaven and Give As You Earn (GAYE) services to all eligible colleagues. Our colleagues that take part in this scheme donate money to a range of national and local charities including Cancer Research UK, Dogs Trust, Midlands Air Ambulance, Parkinson's UK, RoadPeace, and Medecins Sans Frontieres (UK).

We will continue to offer this opportunity to all colleagues going forward, with plans to engage with the Payroll Giving team in sign-up events to encourage further participation.

Local support

In addition to our formal partnerships and Company-wide fundraising activities our colleagues regularly take part in local fundraising for personal causes. Many of our stores are considered part of their local community, and we encourage colleagues to get involved in any charitable activities that they feel passionately about, whether this be to donate hampers or raffle prizes, or to hold their own fundraisers in store.

Community

The sense of community at The Works, both with our colleagues and our customers, is a key strength of our business and became even more important during the COVID-19 pandemic. We understood very quickly the importance of ensuring that colleagues felt connected to The Works, particularly those on furlough, and that we fulfilled customers' desire for ideas to help inspire, motivate and encourage daily activities during periods of lockdown.

#WorksTogether engagement campaign

We tailored all of our customer facing content into driving reach and engagement to our social media channels where our followers could access a hub of support featuring low-cost, fun, home-based activities encouraging participation, creativity and shareability.

We also launched a hugely successful competition inviting our followers to "send in their rainbows" to form part of a design which we then created into an exclusive, bespoke jigsaw to support NHS Charities Together.

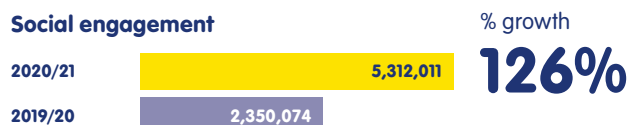
We teamed up with The Craft Council, donating products to support young children in need across the summer months with tools to keep them crafting. We also dropped a sleigh full of gifts to Leeds Cares Present Appeal as part of our community support, helping to spread a little cheer to children and their families who would be spending Christmas in hospital.

We have seen social media engagement grow by 126 per cent. and followers increase by 32 per cent. YOY. Please note, these figures are measured by net growth and therefore inclusive of any follower losses. Engagement is defined as post interactions (including likes, comments, shares, saves and views), and is measured across all users and not just our followers.

Social followers gained



Social engagement



Diversity and Inclusion

We employ c.3,600 permanent colleagues and took on 452 temporary seasonal colleagues during our last peak Christmas trading period. It is important to us that we create an inclusive environment for all of our colleagues regardless of gender, ethnicity, orientation, disability, social mobility and/or age.

Our colleagues are the heart of our business; we have a talented workforce filled with "People Who Do". Our focus continues to be on retaining and nurturing this talent, and keeping our family of colleagues engaged.

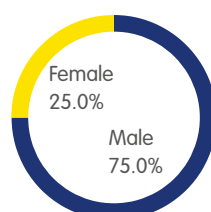
Diversity is Reality but Inclusion is a Choice. Our commitment is to being a truly inclusive organisation; where diversity is embraced, communities come together and where we appreciate how important it is to belong. Talent is everywhere, but opportunity isn't, and our commitment is to ensure everyone has equal opportunities to reach their potential with us no matter who they are.

Recognising the importance of Diversity and Inclusion, in March 2021, working together with over 50 other Retailers, we pledged our commitment to the British Retail Consortium Better Jobs Diversity and Inclusion Charter to improve Diversity & Inclusion in the retail industry and help drive change.

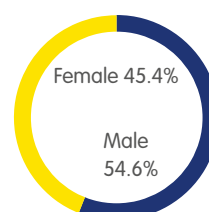
The commitments include appointing a Diversity and Inclusion Executive, to improve recruitment, to remove bias, to support open career opportunity, to collect and contribute data on diversity, to create a respectful and inclusive work environment, and to make all line managers responsible for supporting equality in the workplace.

At the end of the financial period the percentage breakdown of male and female colleagues across the Group was as follows:

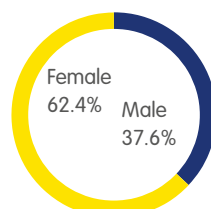
PLC and Operating Board



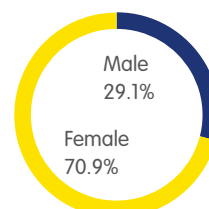
Senior leaders



Store Managers



All colleagues





There is a lot of work to do in this space, specifically around measuring progress, and whilst we believe we are an inclusive organisation, we are always listening and learning. Creating the Diversity & Inclusion work stream as part of our ESG steering group has helped focus our objectives which are:

- Gain more colleague insight and data covering Age, Gender, Ethnicity, LGBTQ+, Disability & Social Mobility (surveys, questionnaires, forums)
- Introduce D&I colleague representatives who will help guide this work stream
- Review all related policies, procedures and practices, updating and relaunching where required
- Exploring and utilising external partners to enhance learning and support initiatives
- Introduce new D&I training across all levels within the organisation

We continuously listen to colleagues right across the business, encouraging a two-way conversation around how best we can improve and support all of our colleagues. We offer a retail developmental programme called "I can be..." where colleagues have the opportunity to discuss their career aspirations with their line manager and upskill accordingly.

One of the most impactful ways that we receive feedback is through the Best Companies engagement survey that measures eight factors including: Leadership, My Company, My Manager, Personal Growth, My Team, Wellbeing, Fair Deal and Giving Something Back. Colleagues are also given the opportunity to leave open commentary on what is working and what could be better. Most recently we received a 2* "Outstanding" Best Companies accreditation having demonstrated growth on all but one of the eight engagement factors. Our response rate sat at an incredible 82.79 per cent. of eligible colleagues, representing a strong and diverse colleague voice.



Health and Wellbeing

Mental health

The coronavirus pandemic affected all of our lives, and we recognised the challenges that these uncertain times brought about at a very early stage. The Works Family Facebook page was introduced amid the first national lockdown. It allows our colleagues to support one another in our "virtual home", as well as enabling us to connect with many colleagues on a platform where we regularly share health and wellbeing content from specialist sources including the NHS, Mind, Retail Trust, and Get Self Help.

To further support our workforce, we

- provided an Employee Assistance Programme for all colleagues;
- launched a suite of four mental health awareness e-learning courses, with over 2,500 colleagues completing one or more of them, and over 1,700 completing all of them;
- provided all colleagues with a detailed return to work review post-lockdown to identify any concerns;
- celebrated Mental Health Awareness Week and World Mental Health Day, and used these as an opportunity to advocate the resources available to our colleagues; and
- launched a mental health partnership with Mind, SAMH and Inspire.

Our focus on colleague wellbeing is measured through the Best Companies engagement survey. This factor has received the highest percentage increase from 2018, when we began to take part in the Best Companies engagement.

4.92¹

was our average "Wellbeing" score in our 2019 colleague engagement survey

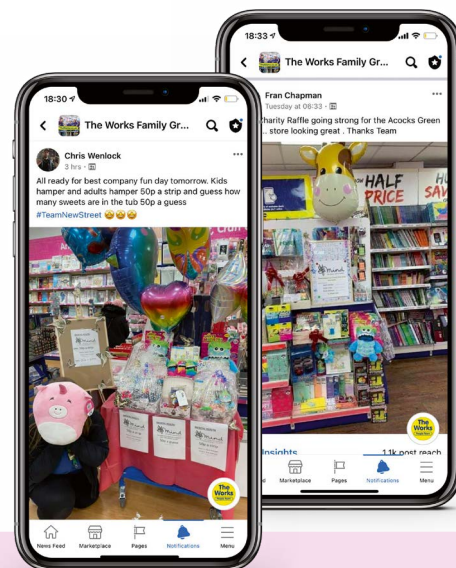
5.32¹

is where we placed in the same factor for 2020

8.13%

is the year-on-year increase. We will target an increase each year as a measure of improvement in Health and Wellbeing in our employee engagement survey.

¹ Please note, factors are marked on a scale of 1–7, 1 being strongly negative, 7 being strongly positive.



The Works Family Facebook page

In response to the coronavirus pandemic we launched a closed Facebook group accessible to our colleagues only. This group was initially put in place to help connect and communicate with our colleagues, allowing them to support one another and providing a further communication channel for us to support them.

Since launch, this group has been a real success. There are currently 1,900 members, more than half of our work force, with 1,676 of these colleagues being Active Members (members that post content or engage with other members' content).

Facebook Insights allows us to develop an understanding of how and when to best reach our colleagues, and we are continuously working on a way to further utilise this communication channel as it has played such a pivotal role in allowing our entire colleague base to create a wider sense of community.



Sustainability report continued

Health and safety

The health and safety of all our employees, customers, contractors, visitors and other members of the public is of paramount importance to our business.

- As a result of COVID-19 we introduced additional safety measures in all of our stores as well as in our support and distribution centre, ensuring they complied with the Government guidance on managing the risk of COVID-19. This included: introducing social distancing, additional cleaning, risk assessments carried out in all locations and training provided to all of our colleagues, along with regular communication of any changes that are made to Government guidance.
- We developed our existing digital learning offering – with Inductions and Support Centre “Visits” taking place virtually for the first time. We also launched our “Protecting Something Special” COVID-secure e-learning suite for stores and face to face for the support and distribution centre, focusing on hygiene, safety, social distancing and wellbeing.
- All colleagues are responsible for ensuring that stores and other working environments are safe and operated without significant risk. Health and safety is incorporated into our day-to-day practices, including during colleague induction, and reinforced through our training programmes to help mitigate health and safety risks.
- Health and safety now forms part of our overall colleague engagement, and health and wellbeing strategy. Our Health and Safety Manager and People team liaise with line managers in all parts of the business to ensure compliance with policies and procedures and ensure that all colleagues receive appropriate training.
- Health and safety meetings are held throughout the year and are attended by representatives from key operational teams with appropriate escalation to the senior management team where material issues or risks arise. The overriding objective of the decisions taken at these meetings is to make stores and workplaces safe places for customers, colleagues and visitors alike.
- The Board receives reports on health and safety matters.
- The Health and Safety Manager analyses trends and takes a proactive approach to managing health and safety practices.

We continually look to educate and develop our suppliers by providing them with a Supplier Manual, detailing our operating requirements. We also give clear points of contact to reduce the lead time in reactivity, ensuring that we adapt to changes quickly and effectively, with support from merchandising, technical and buying functions.

Packaging and waste recycling

Our drive towards more responsible ways of packaging continues; our Buying team challenges our suppliers to be more environmentally aware, reduce pack sizes where possible and choose packaging types that protect our products as well as merchandise them – without excessive polybags or other single-use packaging types. Pack sizes are constantly reviewed to ensure items are not unnecessarily overpackaged.

We are always looking at new ways to reduce the ecological impact of single-use plastics or packaging excess, and we are committed to reducing our usage wherever possible.

Product labelling for items which have been “ReWorked” to become more environmentally friendly will display our internally designed logo. This will highlight the decisions made in getting this product from the production line to the consumer, supporting more informed purchasing decisions.

We proactively reduce the level of waste generated and maximise the proportion of waste that is recycled.

- As part of our commitment to environmental focus through our Keen to be Green campaign, The Works will have eliminated all 5 pence single-use carrier bags as of the end of FY21. This action will result in a reduction of 28 tonnes of plastic purchased annually for this type of bag and remove 2.7m bags from the waste stream.
- We have substituted this option with a variety of reusable, affordable bags, including a large range of reusable bags, designed in house and made from 95 per cent. recycled materials that are manufactured in the UK, as well as high quality, non-woven, shopper bags.
- We continue to educate our teams to maximise the level of waste that can be recycled and minimise the number of collections required to reduce the associated carbon footprint of waste collection and movement and to minimise store waste sent to landfill.
- All of our store locations have the facility to recycle mixed papers, (KLS) cardboard (which constitutes a very large proportion of store waste) and mixed plastics including HDPE, PET and PP either through the use of dry mixed recycling containers (in which 95 per cent. of waste deposited must be recyclable) or waste containers which allow more specific separation of materials (with the latter mainly being in shopping centres with centrally managed facilities).
- Our support and distribution centre in Coleshill, Birmingham, also operates a recycling programme to ensure all mixed film plastics and cardboard materials are baled onsite and removed for recycling.



Environment and Product

We recognise our operations impact the environment and the policies we adopt are important to our business and its stakeholders. Our objective is to reduce our impact on the environment, from material sourcing to customer use and disposal.

Responsible supply chain

We have partnered exclusively with international provider TUV Rheinland, specialists in social responsibility auditing, to develop a bespoke supplier/factory audit programme. Incorporated within this programme will be key questions covering the prevention of Modern Slavery, forced labour and child labour and other fundamental human rights, which we have detailed within our Ethical Trading Code of Conduct Policy.

A supplier questionnaire will encourage our suppliers to declare their business relationships with individual factories that produce for us, enabling us to receive a clear and honest view of how sustainable our supply chain is. Our independent audit programme (which also incorporates a section on supplier capability and their QA functions) will provide greater ethical visibility of suppliers and a greater understanding of their production capabilities.





Energy

Electricity is the main form of energy we consume and we analyse consumption across our entire estate. We continue to look for opportunities to reduce our consumption and wastage.

- The annual consumption of energy for which the Company is responsible was 8,907,017 KWh during the year. The Group's largest direct climate impact results from electricity use in the store estate, which arises in the UK.
- We support our store colleagues in reducing energy consumption and wastage and understanding the impact this has on the Company and the wider environment.
- We will continue to review and perform electrical audits to ensure the equipment we use or inherit is energy efficient.
- Any new stores we open have LED lighting and energy efficient equipment installed and we continue to refit a number of stores with these technologies to help further reduce our in-store consumption.

Greenhouse gas (GHG) emissions

GHG emissions for the Group for the 53 week period ended 2 May 2021, in tonnes of carbon dioxide equivalent (tCO₂e), were:

Source	tCO ₂ e	%
Purchased electricity	4,783.07	93.57
Fuel combustion (mobile)	270.43	5.29
Fuel combustion (stationary)	44.21	0.86
Fugitive emissions ("F-gas")	14.56	0.28
Total	5,112.27	100.00

Emissions intensity

tCO ₂ e	2020/21	2019/20	Variance
Total emissions	5,112.27	7,731.40	33.88%
Emissions intensity*	28.2	34.3	17.78%

* Expressed in tCO₂e per £m turnover.

These emissions were calculated using the methodology set out in the updated greenhouse gas reporting guidance, Environmental Reporting Guidelines (ref. PB 13944), issued by DEFRA in June 2013. FY21 was an atypical year with stores closed for many weeks. Accordingly we expect these numbers to increase in respect of FY22; nevertheless we will continue to focus on ways in which we can minimise our carbon footprint.

"Sustainability is a team effort; we all have a part to play in making our environment a better place, whether it is being mindful of packaging that might end up in landfill (and recycling it) or reviewing whether a polybag is really necessary for a product. We can all contribute."

Chiu Wong
Quality Assurance Manager





Board of Directors



Dean Hoyle

Chair and Non-Executive Director

External appointments

Director of Huddersfield Town Football Club

Date joined TheWorks.co.uk plc

September 2015

Career and experience

Dean joined the Group as Chair in September 2015 following a significant personal investment in the business. Prior to joining the Group, Dean founded Card Factory in 1997, growing from a single shop to a company delivering profits of over £50m in just twelve years, and establishing a store estate of 500 outlets with over 5,000 employees. The business subsequently achieved a successful float on the London Stock Exchange in 2014 with a premium listing and a market capitalisation of £766m.

Dean is a member of the Nomination Committee.



Harry Morley

Senior Independent Non-Executive Director

External appointments

Non-Executive Director and Chair of the Audit Committee at JD Wetherspoon plc and The Mercantile Investment Trust plc and trustee of the Ascot Authority. He is also a director of Cadogan Group Limited and two related subsidiary companies

Date joined TheWorks.co.uk plc

July 2018

Career and experience

Harry joined the Board as Senior Independent Non-Executive Director in July 2018. Harry was CEO of Armajaro Asset Management LLP from 2010 until 2016, and a non-executive Director of Bibendum Wine Holdings Ltd until May 2016. He was co-founder and CFO of Tragus Holdings Ltd, owner of the Café Rouge and Bella Italia restaurant chains, and also worked in the shipping industry for P&O. He is currently a non-executive Director of JD Wetherspoon plc and Cadogan Group Limited and a Trustee of The Ascot Authority. He qualified as a chartered accountant with Price Waterhouse.

Harry is the Chair of the Audit and Nomination Committees and a member of the Remuneration Committee.



Catherine Glickman

Independent Non-Executive Director

External appointments

Non-Executive Director and Chair of the Remuneration Committee at Renishaw plc and RPS Group plc

Date joined TheWorks.co.uk plc

July 2018

Career and experience

Catherine joined the Board as an independent Non-Executive Director in July 2018. Catherine retired as Group HR Director of Genus plc in February 2018 having previously held the same role at Tesco where she led retail management development and customer service training during a period of significant expansion in the UK and overseas. Prior to this she held positions at Somerfield and Boots. Working closely with the Remuneration Committees at Genus and Tesco, Catherine has developed reward structures that align leadership motivation with group strategy. She is a graduate of Durham University with a BA Hons in English.

Catherine is the Chair of the Remuneration Committee and a member of the Audit and Nomination Committees.

**Gavin Peck**

Chief Executive Officer

External appointments

None

Date joined TheWorks.co.uk plc

April 2018

Career and experience

Gavin was appointed Chief Executive Officer of The Works in January 2020 after joining as Chief Financial Officer in April 2018. Prior to this he was Commercial Director at Card Factory plc where he was responsible for the Commercial function (buying, space and merchandising) alongside leadership of the Commercial Finance team. Gavin joined Card Factory in April 2011 and was a key member of a successful team that grew the business from a portfolio of 530 stores generating £56m EBITDA to a portfolio of over 900 stores generating close to £100m EBITDA, playing a key role in the successful IPO of Card Factory in 2014 and its subsequent growth and evolution as a listed business.

Gavin is a Chartered Accountant, having started his career at PwC where he spent eight years working in the audit and corporate finance departments, and has a BSc in Economics from The London School of Economics.

**Steve Alldridge**

Chief Financial Officer

External appointments

None

Date joined TheWorks.co.uk plc

May 2021

Career and experience

Steve joined the Group on an interim basis as CFO in June 2020, and was appointed as permanent CFO, and as a Board Director, with effect from 14 May 2021. Steve has over 20 years' experience of working in retail, most recently as CFO of Bonmarché Holdings plc where he led a highly effective finance function, and completed several significant transactions, including a private equity backed management buyout, and two stock market listings. Prior to joining Bonmarché in 2003, Steve qualified as a Chartered Accountant with EY, followed by seven years working at discount retailer Peacocks.

Committee membership

- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee
- Chair of Committee**



Chair's governance introduction



Dean Hoyle
Chair

“The Board is extremely grateful to all of our employees for the patience, hard work and commitment they have demonstrated during the crisis.”

Dear shareholder,

On behalf of the Board, I'm pleased to introduce our Corporate Governance report for the 53 week period ended 2 May 2021.

Throughout this challenging year, the Board has remained fully committed to implementing the highest standards of corporate governance, and has applied the principles of the 2018 UK Corporate Governance Code (the "Code") in so far as it applies to smaller listed companies (below the FTSE 350).

The year has been significantly disrupted by the COVID-19 pandemic, and the Board's focus has continued to be on protecting the health and safety of our employees and customers, and ensuring the long-term financial security of the business. The Board is extremely grateful to all of our employees for the patience, hard work and commitment they have demonstrated during the crisis.

Up until the COVID-19 pandemic, there had been a period of evolution for the Company and the Board. Despite the current circumstances, we have continued to strengthen and embed our governance arrangements. This has enabled the Board and Committees to effectively discharge their responsibilities and work closely together to steer the Company through the last twelve months. We regularly review our approach to applying the principles of the Code, which has included maintaining a focus on the culture of our Company, and enhancing our approach to engaging with our people and other key stakeholders. We believe that we have a solid framework of employee engagement mechanisms in place, which allow the Board to assess and monitor how our culture is maintained across the business. The Board recognises that these are important themes, and as such, feature regularly in Board meeting discussions and decision making.

We appointed Steve Alldridge as Interim CFO in June 2020, and were delighted that he accepted our offer to take up the role on a permanent basis, and join the Board of the Company, from 14 May 2021.

The Operations Board has also continued to evolve during the year, with the recruitment of Dean Hawkrig as Supply Chain Director. The Board believes that the Operations Board comprises a team of highly experienced, motivated and engaged individuals who will drive the successful delivery of our strategic aims moving forwards.

We conducted our annual Board and Committee performance evaluation during the year. I'm pleased to report that the evaluations indicated that the Board and its Committees are operating effectively, and that each individual Director is performing well and demonstrating commitment to their roles. More information on the evaluations is set out in the following report.

Subject to any social distancing measures that may be in place at the time, we look forward to inviting shareholders to our Annual General Meeting, which will be held on 30 September 2021. Further details will be set out in the Notice of Annual General Meeting.

In the meantime, the Board is grateful for the continued support of shareholders, and the Non-Executive Directors and I are available to engage with shareholders at any time.

Dean Hoyle
Chair
20 July 2021



Corporate governance report

UK Corporate Governance Code – Compliance Statement

The Company has applied all of the principles of the UK Corporate Governance Code (the “Code”) as they apply to it as a “smaller company” (below FTSE 350) and has complied with all relevant provisions of the Code during the year. Full details of the Code are available at frc.org.uk. Details explaining how the Company has applied the principles of the Code can be found throughout the Annual Report.

Governance structure

Board

- | | |
|---|---|
| <ul style="list-style-type: none"> • Overall leadership of the Group • Oversight of systems of internal control, risk management and corporate governance | <ul style="list-style-type: none"> • Sets strategy, purpose, values and culture • Approves major contracts • Approves business plan and budget |
|---|---|

The Board has delegated a number of its responsibilities to the Audit Committee, Nomination Committee and Remuneration Committee. The terms of reference of each of its Committees, and the Schedule of Matters Reserved to the Board, are available from www.theworksplc.co.uk

Audit Committee

- Reviews annual and interim financial statements
- Reviews accounting policies and financial reporting and regulatory compliance
- Reviews the Company’s internal control system
- Monitors the Company’s processes for internal audit, risk management and external audit
- Monitors independence of external and internal auditors
- Oversees relationship with external auditor

Nomination Committee

- Identifies and nominates appointments to the Board
- Reviews NED time commitments
- Oversees succession planning
- Reviews size and composition of the Board
- Promotes diversity
- Responsible for carrying out an annual performance evaluation of the Board, its Committees and individual Directors

Remuneration Committee

- Sets Remuneration policy
- Determines Executive Director and senior management remuneration
- Approves annual bonus plan and Long-Term Incentive Plan targets
- Reviews workforce remuneration policies and practices
- Ensures that provisions regarding disclosure of remuneration are fulfilled

Operations Board

Reports to the CEO, is responsible for the day-to-day trading activities of the Group and implements the strategy agreed by the Board. Monitors performance against financial and operational targets and manages risk. Details of the Operations Board can be found on our website at www.theworksplc.co.uk/our-business/leadership/board

Role of the Board and how it operates

The Board’s role is to provide overall entrepreneurial leadership, setting the Group’s strategy, purpose, values and culture, and supporting the Executive Directors in the delivery of that strategy. In doing so, the Board is also responsible for ensuring that appropriate policies, procedures and controls are in place to support effective risk management and performance against agreed financial and operational metrics.

Certain matters, including decisions relating to the strategic direction of the Group, changes to capital, corporate or management structure, approving financial reports, and approval of capital expenditure over agreed limits, are reserved to the Board and formally documented in a Schedule of Matters Reserved, which is reviewed annually.

The Board meets at least ten times per year, and its activity at each meeting is planned in accordance with a formal schedule of activity approved by the Board. This ensures that it receives appropriate information at the appropriate time, and that all key operational, financial reporting and governance matters are discussed during the year. In addition to standing items, agendas incorporate sufficient flexibility to allow specific areas of focus to be considered as and when required. The schedule includes regular presentations from Operations Board members on specific areas of their responsibility, which assists the Non-Executive Directors’ understanding of the day-to-day operations of different functions of the Group.

A detailed pack is prepared and circulated in advance of each meeting which includes updates from the CEO, CFO and other Operations Board members tracking performance against agreed key performance indicators. These reports also set out current areas of focus, and highlight any specific issues requiring further discussion or debate by the Board. The Company Secretary also prepares a report for each Board meeting covering matters such as forthcoming scheduled announcements and closed periods, the operation of the Company’s Share Dealing Code and regulatory or legislative developments which may impact the Company.

Roles and responsibilities

Chair and CEO

The Chair (Dean Hoyle) is responsible for leading the Board’s discussions, ensuring its effectiveness and promoting an open forum for debate and constructive relations between Executive and Non-Executive Directors. The Chair continues to hold meetings with the Non-Executive Directors without the Executive Directors present.

There is a clear division of responsibilities between the Chair and the CEO, with the purpose of each role clearly defined in their respective letter of appointment and service agreement. The CEO reports to the Board, and is responsible for all Executive management matters of the Group.

Non-Executives

The Non-Executive Directors (Catherine Glickman and Harry Morley) are both independent and provide constructive challenge to management, helping to develop proposals on strategy, and providing advice and support based on their experience in both Executive and Non-Executive roles throughout their careers.

Senior Independent Director

Harry Morley has been appointed as Senior Independent Director, and in that role acts as a sounding board for the Chair and is available to shareholders if they have concerns which contact through the normal channels of the CEO or Chair has failed to resolve. He also leads the annual evaluation of the Chair’s performance.

Board Committees

In line with recognised governance practice, the Board has established three Board Committees (Audit, Remuneration and Nomination). Each Committee has its own terms of reference which are approved by the Board and are reviewed annually. Membership of the Committees is determined by the Board, on recommendations from the Nomination Committee. Details of the role, composition and activities of each Committee during the year are set out in their respective reports on the following pages.



Corporate governance report continued

Roles and responsibilities continued

Operations Board

The Executive Directors are supported in their day-to-day management of the business by an experienced Operations Board.

Company Secretary

The Company Secretary supports the Board and each of the three Board Committees, and is in attendance at all meetings. The Company Secretary is available to all the Directors to advise on company law, governance and best practice, whilst assisting the Board in ensuring that the correct policies, processes and information are tabled for discussion, noting or approval at the correct point in time throughout the year.

Composition, independence and attendance

During FY21, the Board comprised four Directors (including the Chair). Having considered circumstances which are likely to impair a Non-Executive Director's independence, it has been determined that both of the Non-Executive Directors (Catherine Glickman and Harry Morley) continue to be independent. The Company has therefore complied with provision 11 of the Code throughout the year, with a majority of the Board (excluding the Chair) comprising independent Non-Executive Directors. Despite the appointment of Steve Alltridge as an additional Executive (and therefore non-independent) Director from 14 May 2021, the Company continues to comply with provision 11 as at least half the Board (excluding the Chair) comprises of independent Non-Executive Directors).

Individual Director attendance at scheduled Board and Committee meetings (where they are a member) is set out in the table below:

Director	Board meetings held/attended	Audit Committees held/attended	Remuneration Committee held/attended	Nomination Committee held/attended
Dean Hoyle ¹	10/12	N/A	N/A	1/1
Gavin Peck	12/12	N/A	N/A	N/A
Catherine Glickman	12/12	5/5	4/4	2/2
Harry Morley	12/12	5/5	4/4	2/2

- 1 Dean Hoyle was unable to attend two scheduled meetings in the year, which were chaired by Harry Morley in his absence, due to unavoidable external commitments. Dean Hoyle received the papers for the meetings, and was briefed in detail both before and after the meetings by the CEO.

All Directors are expected to attend all meetings of the Board and any Committees of which they are members, and to devote sufficient time to the Company's affairs to fulfil their duties as Directors. The Non-Executive Directors' letters of appointment anticipate that each Non-Executive Director will need to commit a minimum of two days per month to the Company but clarify that more time may be required. In addition, the Non-Executive Directors are expected to commit appropriate preparation time ahead of each meeting.

Where Directors are unable to attend a meeting, they are encouraged to submit any comments on papers or matters to be discussed to the Chair in advance to ensure that their views are recorded and taken into account during the meeting.

Key activities during the year

The Board met formally on twelve scheduled occasions during the year. Due to the ongoing impact of COVID-19, all but one of the meetings were held by video conference. In addition to the scheduled meetings, the Board has held a number of ad hoc video conference meetings to consider specific matters such as, the ongoing impact of COVID-19 on the business, the half-year trading update, and the renewal of the Company's debt facility. In response to the pandemic and recognising the significant impact of the situation on the Company's operations the Board implemented a programme of weekly update calls from the middle of March 2020 until the reopening of stores in mid-June 2020, when these calls moved to a two-weekly cycle of meetings and then reverted to a normal pattern after July 2020.

The standing agenda for each scheduled Board meeting includes updates from the CEO and CFO on trading and financial performance, an investor relations update and an update from the Company Secretary. In addition, the Board has also received regular updates from members of the Operations Board covering topics such as supply chain, eCommerce, and People and IT strategy. These Operations Board presentations ensure that the Non-Executive Directors are informed of key operational initiatives and challenges, and provide the opportunity for senior executives to meet, and discuss their areas of responsibility with, the Board.

During the year the Board, has, as part of its annual governance programme:

- reviewed the Company's delegated authority limits;
- reviewed the Group risk register and internal controls structure;
- reviewed and approved the FY22 budget;
- reviewed its Schedule of Matters Reserved and the Terms of Reference of the Board Committees;
- received an update on Company culture and reviewed a summary of key workforce policies and procedures;
- reviewed various governance policies, including the Disclosure Policy, Whistleblowing Policy, Share Dealing Code and Board Diversity Policy;
- reviewed and approved the half-year and full-year financial statements;
- reviewed the results of the Board evaluation and employee engagement survey; and
- considered and agreed the constitution of the Environmental, Social and Governance (ESG) steering group and received an update on the proposed approach to certain ESG matters.

Training and development

A full, formal and tailored induction programme has been developed for any new Directors joining the Board. The Company Secretary ensures that the Board is briefed on forthcoming legal and regulatory developments, as well as developments in corporate governance best practice, and Directors are expected to keep themselves apprised of developments relevant to the Company's business.

During the year, the Board approved and implemented a "buddy" system whereby Operations Board members are buddied with Non-Executive Directors. The aim is to further strengthen engagement between the Non-Executive Directors and management, as well as assist with succession planning and talent development. The buddy system has been well received by all parties.

Evaluation and effectiveness

During the year, a formal internal performance evaluation was conducted for the Board and each of its Committees. The evaluations were conducted by way of questionnaires, with a summary of responses discussed at the Board's meeting in April 2021.

The results of the Board evaluation indicated that the Board operates effectively, with each individual Director contributing to the Board's discussions and demonstrating commitment to their roles. The evaluation highlighted a number of areas for focus in FY22, in particular to continue to enhance engagement with the Operations Board and wider workforce.

Information and support

Agendas and accompanying papers are distributed to the Board and Committee members well in advance of each Board or Committee meeting. Where necessary separate papers are prepared to support specific matters requiring Board decision or approval (for example capital expenditure projects), and the Non-Executives provide ongoing feedback to the CEO and CFO on the content of papers to ensure they continue to support effective debate and decision making by the Board.



All Directors have direct access to the Operations Board and other senior managers should they require additional information on any of the items to be discussed. The Board and the Audit Committee also receive regular and specific reports to allow the monitoring of the adequacy of the Company's systems of internal control.

Minutes of all Board and Committee meetings are taken by the Company Secretary and circulated to Directors for approval as soon as practicable following the meetings. Specific actions arising from meetings are recorded both in the minutes and on separate action logs, thereby facilitating the effective communication of actions to those responsible and allowing the Board to monitor progress.

Appointment and election

The Board considers all Directors to be effective, and committed to their roles and to have sufficient time to perform their duties. Having been appointed by the Board since the last Annual General Meeting (AGM), Steve Alldridge will stand for election by shareholders at the 2021 AGM for the first time. In accordance with the Company's Articles, all other members wishing to continue in office of the Board will be offering themselves for re-election at the Company's AGM on 30 September 2021.

All of the Directors have service agreements or letters of appointment and the details of their terms are set out below.

Executive Director service contract

Name	Position	Date of service agreement	Notice period by Company (months)	Notice period by Director (months)
Gavin Peck	CEO	19 July 2018	12	12
Steve Alldridge	CFO	14 May 2021	6	6

The Non-Executive Directors (including the Chair) do not have service contracts, but are instead engaged via letters of appointment. Each of the Non-Executive Directors and the Chair were reappointed for a three-year term commencing from the 2019 AGM, subject to their annual reappointment by shareholders.

Non-Executive Director appointment

Name	Date of appointment	Commencement date of current term	Unexpired term at July 2021
Dean Hoyle	19 July 2018	28 August 2019	11 months
Catherine Glickman	19 July 2018	28 August 2019	11 months
Harry Morley	19 July 2018	28 August 2019	11 months

Conflicts of interest

The Company's Articles set out the policy for dealing with Directors' conflicts of interest and are in line with the Companies Act 2006. The Articles permit the Board to authorise conflicts and potential conflicts, as long as the potentially conflicted Director is not counted in the quorum and does not vote on the resolution to authorise.

The Board operates a procedure under which Directors are required to immediately notify the Company Secretary when a conflict or potential conflict arises in order that Board authorisation can be sought. If the Board determines that a conflict or potential conflict can be authorised, it may impose additional conditions to manage such conflicts of interest. The procedure is in place to ensure that independent judgement is maintained at all times and that Directors are not affected by the influence of third parties, and that any conflicts arising from significant shareholdings are managed appropriately.

In addition, Directors are reminded at the beginning of each Board meeting to notify the Board of any further conflicts of interest in accordance with Sections 175, 177 and 182 of the Companies Act 2006.

Whistleblowing

The Company has adopted procedures by which employees may, in confidence, raise concerns relating to possible improprieties in matters of financial reporting, financial control or any other matter. The Whistleblowing Policy applies to all employees of the Group. The Board is responsible for monitoring the Group's whistleblowing arrangements and reviewed the policy and arrangements during the year. The Board is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters, and allow appropriate follow-up action to be taken.

Stakeholder engagement

The CEO and Operations Board members are responsible for the day-to-day management of stakeholder relationships and to ensure that stakeholder issues are appropriately reported to the Board. Further information on how we engage with stakeholders is set out in the Sustainability report on pages 32 to 39 and the Section 172 statement on page 30. The Directors recognise their duty under Section 172 of the Companies Act to consider the interests of stakeholders, and the nature of our business means that the interests of our employees, customers and suppliers are at the front of mind in the Board's decision making process.

Engagement with the workforce

The Board receives regular updates on employee engagement activity through Operations Board reports, and this includes reviewing the results of the annual employee engagement survey. During the year, the Board focused heavily on employee safety and wellbeing. There was a formal review on Company culture, and in particular how the strength of that culture supports the retention of hard working, customer centric colleagues, as well as a review of workforce policies. Additionally, feedback was sought at appropriate intervals throughout the year from colleagues and discussed by the Directors. Company culture forms a regular part of the Board's activity schedule as the Board recognises it forms an intrinsic part of promoting the Company's long-term success.

As part of its review of Code compliance during the year, the Board assessed the various methods by which the Directors engage with the wider workforce. The Board agreed that the combination of the methods described above ensures that the Board is appropriately informed about, and understands, workforce views, and therefore this approach continues to appropriately address the requirement to engage with the workforce under provision 5 of the Code. The Board does not currently intend to adopt one of the three workforce engagement methods suggested in that provision, but will continue to monitor its workforce (and wider stakeholder) engagement mechanisms to ensure they operate effectively.

Relations with shareholders

The Board recognises the importance of explaining financial results and key strategic and operational developments in the business to the Company's shareholders, and of understanding any shareholder concerns.

Ensuring a satisfactory dialogue with shareholders and receiving reports on the views of shareholders is a matter reserved for the Board. Day-to-day responsibility for investor relations is delegated to the CEO and the CFO, who are supported by the Company's retained financial PR advisors and its corporate brokers. As part of its investor relations programme, the Group aims to maintain a dialogue with its shareholders, including institutional investors, to discuss issues relating to the performance of the Group. Information and investor news is also made available via our investor website (www.theworksplc.co.uk).

The Non-Executive Directors are available to discuss any matters shareholders might wish to raise, and the Chair and independent Non-Executive Directors will attend meetings with investors and analysts as required. Investor relations activity is a standing item on the Board's agenda.

The Company's AGM will take place at 9.00 am on 30 September 2021 at the Company's registered office Boldmere House. The Annual Report and financial statements and Notice of the AGM will be made available to shareholders in accordance with the required notice periods.



Report of the Audit Committee

Chair of the Audit Committee's letter to shareholders



Harry Morley

Chair of the Audit Committee

Other member:

Catherine Glickman

“The Committee’s role is to assist the Board with the discharge of its responsibilities in relation to internal and external audits and controls.”

Dear shareholder,

On behalf of the Board, I am pleased to present the Audit Committee report for the 53 week Period ended 2 May 2021.

The Committee’s role is to assist the Board with the discharge of its responsibilities in relation to internal and external audits and controls, including reviewing the Group’s annual financial statements, considering the scope of the annual audit and the extent of the non-audit work undertaken by the external auditor, advising on the appointment of the external auditors and reviewing the effectiveness of the internal control systems in place within the Group.

The Committee has met on five occasions during the year, and once since the year end. Our main activities in the year have included reviewing the half-year and full-year financial statements and the Annual Report, reviewing the Group’s systems of internal control and risk management, and considering the reports of the Company’s external auditor and internal audit function.

Significant accounting judgements and policies

The significant accounting judgements identified by the finance team and the external auditor were discussed by the Audit Committee at our meetings on 25 March 2021 and 14 July 2021. Details of the significant judgements and how they have been addressed are set out below.

Internal audit

Due to the ongoing impact of COVID-19, and a focus on cost savings within the business, the Committee agreed it was appropriate to temporarily place on hold the internal audit activity carried out by Grant Thornton (GT). As noted in the report below, we have agreed that a detailed review of our risk register will be carried out in the first half of FY22, and the output of that review will be used to inform the priority areas of focus for which GT’s assurance should be sought going forwards.

External auditor

The Committee has reviewed the effectiveness of the FY20 external audit process, and our external auditor’s (KPMG LLP) independence, and following that review we have recommended that KPMG LLP be reappointed as the Company’s auditor at the next Annual General Meeting.

We have monitored the level of non-audit services provided by the external auditor (described on page 48), and confirm that all non-audit services provided were in line with our policy.

Performance evaluation

The Audit Committee has evaluated its performance this year by way of a questionnaire completed by each member of the Committee and other regular attendees. The outcome of the evaluation was discussed at the Board meeting held in April 2021. The evaluation confirmed that the Committee operates effectively, and indicated some suggested improvements including further developing the approach to monitoring risk management and internal control systems.

Harry Morley

Chair of the Audit Committee
20 July 2021



Composition of Committee

Harry Morley – Chair
Catherine Glickman

Harry Morley is a qualified Chartered Accountant, has an executive background in finance roles and is an experienced Audit Committee chair. The Board is therefore satisfied that Harry has recent and relevant financial experience as recommended under provision 24 of the UK Corporate Governance Code. The Board is also satisfied that the Committee as a whole has competence relevant to the sector in which the Company operates, with both Committee members having experience as directors in the retail and leisure sectors.

Duties and responsibilities

The Audit Committee's duties and responsibilities are set out in its terms of reference which are available on the Company's website.

Meetings and attendees

The Committee met on five occasions during the year, and has met once since the year end. All meetings were fully attended by members of the Committee as shown in the table on page 44.

The internal and external auditors have the right to attend meetings, and other Directors and members of the management team may attend by invitation. Outside of the formal meeting programme, the Audit Committee Chair maintains a dialogue with key individuals involved in the Company's governance, including the Chair, the Chief Executive Officer, the Chief

Significant issues considered in relation to the financial statements

Significant issues and accounting judgements are identified by the finance team and through the external audit process and are reviewed by the Audit Committee. The significant issues considered by the Committee in respect of the Period ended 2 May 2021 are set out in the table below.

Significant issues and judgements	How the issues were addressed
Alternative performance measures (APMs)	The APMs adopted in the FY21 financial statements are the same as those used in FY20, as they continue to be useful aids to gaining a fuller understanding of the performance of the business. They are described in Note 5 of the financial statements.
Adjusting items	The Audit Committee will always consider the appropriateness of classification of any items as "Adjusting". The total value of Adjusting items in the FY21 Consolidated income statement is immaterial and the items treated as Adjusting in respect of FY21 have only been treated as such to maintain consistency with the prior period treatment.
Going concern	The Committee gave due consideration to the appropriateness of continuing to apply the Going Concern convention. The assessment of a reduced level of uncertainty compared with FY20 combined with improved profit forecasts reduced the level of judgement required to reach this conclusion, compared with FY20.
Impairment of property, plant and equipment, right-of-use assets and intangibles	Significant impairment charges were recognised in the FY20 accounts. The improved forecasts and reduction in uncertainty at the end of FY21 have justified a net reversal of some of the impairments previously booked.
Application of IFRS 16 Leases	This accounting standard introduced complexity to a previously relatively straightforward area of accounting, and the requirement for additional judgements. The standard was applied for the first time in respect of FY20 and the same approach has been used in respect of FY21. The Committee reviewed the basis of judgements made in relation to leases to ensure that appropriate criteria were used to determine whether a lease should be classified as such within the context of IFRS 16.
Valuation of inventory	The disruption as a result of COVID-19 had a significant effect on the Period end stock position, and the Committee reviewed this area carefully.
Carrying value of Parent Company investments	A degree of judgement is required to assess the carrying value of Parent Company investments, although, as with the going concern consideration, the reaching of a conclusion was more straightforward in FY21 than the prior Period.
Hedge accounting	The accounting treatment was reviewed, in particular the appropriateness of continuing to apply hedge accounting.

Risk management and internal control

The Board has overall responsibility for setting the Group's risk appetite and ensuring that there is an effective risk management framework to maintain levels of risk within the risk appetite. The Board has, however, delegated responsibility for review of the risk management methodology and effectiveness of internal control to the Audit Committee. During the year the Audit Committee and the Board have reviewed the Group's risk register, and challenged management on the classification of risk and the

Financial Officer and the external audit lead partner. At least twice per year, the Committee also meets the external auditor without members of the management team present.

Activity during the year

Key matters discussed by the Committee during the year have included:

- considering the impact of COVID-19 pandemic;
- receiving a presentation on the Group's product safety process;
- reviewing risk register updates;
- considering the treatment of asset impairments in light of COVID-19;
- reviewing scenario analysis in support of the going concern assessment and long-term viability statement;
- monitoring the application of the Group's policy on the provision of non-audit services by the external auditor;
- reviewing the effectiveness of the Group's internal control and risk management systems;
- reviewing the half-year financial statements, and the Annual Report and financial statements, and recommending their approval by the Board;
- reviewing the effectiveness of the external auditor; and
- reviewing the Committee's terms of reference to ensure they remain in line with the UK Corporate Governance Code and associated guidance.

mitigations in place. Given the additional pressure on the business and the management team from the impact of COVID-19, the Committee agreed that the usual detailed risk register review process would be delayed until the first half of FY22. Nonetheless the principal risks and uncertainties facing the business have been reviewed by the Board as a normal part of the year-end review process. Further details of the Group's risk management approach, structure and principal risks are set out in the Strategic report on pages 22 to 27.



Report of the Audit Committee continued

Risk management and internal control continued

The Group's system of internal control comprises entity-wide high level controls, controls over business processes and store-level controls. Policies and procedures and clearly defined levels of delegated authority have been approved and communicated across the Group, and include an Internal Control Framework, corporate risk register, Business Continuity Plan and IT system policies. These are further supplemented by other policies and procedures which are communicated to employees through the employee handbook.

Management has identified the key operational and financial processes which exist within the business. Internal controls have been implemented over these processes in addition to the higher level review and authorisation-based controls. These policies are designed to ensure the accuracy and reliability of financial reporting and govern the preparation of financial statements. The Board is ultimately responsible for the Group's system of internal controls and risk management and discharges its duties in this area by:

- holding regular Board meetings to consider the matters reserved for its consideration;
- receiving regular management reports which provide an assessment of key risks and controls;
- scheduling periodic Board reviews of strategy including reviews of the material risks and uncertainties facing the business;
- ensuring there is a clear organisational structure with defined responsibilities and levels of authority;
- ensuring there are documented policies and procedures in place; and
- reviewing regular reports containing detailed information regarding financial performance, rolling forecasts, actual and forecast bank covenant compliance and financial and non-financial KPIs.

In reviewing the effectiveness of the system of internal controls, the Audit Committee:

- reviews the risk register compiled and maintained by senior managers within the Group and questions and challenges where necessary; and
- regularly reviews the system of financial and accounting controls.

The Audit Committee, on behalf of the Board, has reviewed the effectiveness of the internal control systems and risk management processes in place, taking account of any material developments since the year end. 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. The enforced closure of the stores for extended periods during FY21 interrupted this process and, as a result, this internal control process did not achieve the normal level of effectiveness. Stock provisions have been increased to reflect the additional unrecognised stock loss in the stock file, and additional disclosures have been included in the financial statements to explain the issues, including the judgements involved in estimating the provisions required.

Internal audit

Grant Thornton was appointed as the Company's outsourced internal audit function following the IPO in 2018. Although there is no formal governance or regulatory requirement for the Company to have an internal audit function, the Committee is committed to upholding high standards of governance and best practice, and continues to review the need for such a function on an annual basis. We agreed at the end of 2020 that Grant Thornton would remain the Company's outsourced internal audit function, but that the internal audit plans would be temporarily placed on hold. Due to the wider economic circumstances and the focus by the Company on preserving cash, it was concluded that this would be the most appropriate option in the current circumstances. The Committee will be informed by the detailed review of the Company's risk register in identifying whether there are any priority areas of focus which require the support of Grant Thornton going forwards.

External auditor

The Audit Committee is responsible for overseeing the Group's relationship with its external auditor, KPMG LLP. This includes the ongoing assessment of the auditor's independence and the effectiveness of the external audit process, the results of which inform the Committee's recommendation to the Board as to the auditor's appointment (subject to shareholder approval) or otherwise.

The Financial Reporting Council's Audit Quality Review team (AQR) reviewed KPMG's audit of the Group's 2020 financial statements as part of its annual inspection of audit firms. The Committee received and reviewed the final report from the FRC in March 2021. The Committee was satisfied that the matters raised by the AQR were appropriately incorporated into the 2021 audit plan.

Appointment and tenure

KPMG was first appointed as the external auditor of TheWorks.co.uk plc in 2018. The current lead audit partner, Tony Sykes, was appointed ahead of the FY19 audit process.

KPMG generally requires the rotation of the lead audit partner every five years for a listed client. Therefore, a new lead audit partner is expected to be selected for the FY24 audit. In accordance with the Code and EU legislation, the Committee intends to put the external audit out to tender at least every ten years.

Non-audit services

The engagement of the external audit firm to provide non-audit services to the Group can impact on the independence assessment. The Company has therefore adopted a policy which requires Audit Committee approval for any permitted non-audit services, except for permitted non-audit services with a fee of less than £5k on an individual basis or £20k on an aggregated basis for which the Audit Committee has pre-approved the use of the external auditor subject to approval of the service by the Chief Financial Officer.

When reviewing requests for non-audit services the Audit Committee will assess:

- whether the provision of such services impairs the auditor's independence or objectivity and any safeguards in place to eliminate or reduce such threats;
- the nature of the non-audit services;
- whether the skills and experience make the auditor the most suitable supplier of the non-audit service;
- the fee to be incurred for non-audit services, both for individual non-audit services and in aggregate, relative to the Group audit fee; and
- the criteria which govern the compensation of the individuals performing the audit.

The external auditor may not be engaged to provide non-audit services which have been identified as "prohibited" in accordance with legislative and regulatory requirements.

During the Period ended 2 May 2021, the only non-audit services which KPMG has been engaged to carry out relate to the issuance of turnover certificates. The fees paid to KPMG LLP in respect of non-audit services during the year totalled £1k, representing 0.5 per cent. of the total audit fee. Further detail is shown in Note 7 to the financial statements on page 84.

External audit effectiveness

During the year, the Audit Committee reviewed the external auditor's effectiveness in carrying out the FY20 year-end audit and concluded that the audit process had been carried out effectively. The Committee will formally review the effectiveness of the FY21 audit process during FY22.

Harry Morley
Chair of the Audit Committee
20 July 2021



Report of the Nomination Committee



Harry Morley

Chair of the Nomination Committee

Other members:

Catherine Glickman
Dean Hoyle

“Board and senior management succession planning remains on our rolling agenda and will be considered regularly by the Committee moving forwards.”

Role and responsibilities

The role of the Nomination Committee (the “Committee”) is set out in its terms of reference which are available on the Company’s website. Its primary purpose is to develop and maintain a formal, rigorous and transparent procedure for identifying appropriate candidates for Board appointments and to make recommendations to the Board.

Specific duties of the Committee include:

- regularly reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes;
- keeping under review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace; and
- reviewing annually the time required from Non-Executive Directors.

The Committee is also responsible for keeping under review Board and senior management succession plans and for making recommendations on the composition of the Board and its Committees.

Meetings

The Committee meets at least once per year and otherwise as required in order to discharge its duties. Only members of the Committee have the right to attend meetings, but the CEO and People Director are typically invited to attend at least part of each meeting, particularly when Executive succession planning is being discussed and other workforce related matters. Other Directors, Executives or advisors may be invited to attend all or part of any meeting as appropriate.

The Committee met on two occasions during the year, and has met once since the year end. Individual attendance at the meetings is set out in the table on page 44. The meetings focused on a number of matters including reviewing the composition of the Board and Board succession planning, and the recruitment for a permanent CFO. We have also discussed succession planning, and reviewed the Board Diversity Policy.

Succession planning

Steve Alldridge was appointed as interim CFO in June 2020 and continued in that role throughout FY21. The Committee kept under review the need to make a permanent appointment, and was unanimous in the view that the permanent role should be offered to Steve given his significant experience in senior finance roles in the retail sector, and based on his strong performance in the interim role. We were delighted that Steve agreed to be appointed on a permanent basis, and we therefore recommended to the Board that he be appointed as a Director of the Company with effect from 14 May 2021.

Board and senior management succession planning remains on our rolling agenda and will be considered regularly by the Committee moving forwards.



Report of the Nomination Committee continued

Diversity

The Board recognises the importance of diversity, although it believes that appointments should be made on merit, whilst ensuring that there is an appropriate balance of skills and experience within the Board. Following Steve Alldridge's appointment, the Board currently consists of 20 per cent. (one) female and 80 per cent. (four) male board members.

As noted above, the Committee reviewed the Board Diversity Policy during the year. The Committee is responsible for monitoring compliance with the objectives of that Policy. The Policy recognises the benefits of greater diversity, including gender diversity, and sets out the Board's commitment to ensuring that the Company's Directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives to the Group. To ensure this is applied in practice, the Board agreed during the year to further increase the focus on diversity across the business. Additionally, as part of its commitment to diversity, during the year the Company signed up to the British Retail Consortium Diversity and Inclusion Charter.

The key objective of the Policy is to set out the process to be followed by the Nomination Committee during the recruitment process in order to ensure that an appropriately diverse pool of candidates is considered to enhance the balance of skills and backgrounds on the Board.

Other than for the appointment of Steve Alldridge as permanent CFO (described above), for which the Committee decided that no formal recruitment process was required given the circumstances and Steve's performance in the interim role, there have been no formal Board appointments during the year under review. Therefore there is no progress to report against that objective.

The Policy also places other responsibilities and objectives on the Committee, including an annual review of the structure, size and composition of the Board and an annual review of the Diversity Policy. Both of these matters were addressed at the Committee's meeting in April 2021.

Annual evaluation

The Committee has evaluated its own performance during the year by way of a questionnaire completed by each member of the Committee and key contributors to Nomination Committee meetings. The evaluation indicated that the Committee operates effectively, but highlighted the need for continued focus on Board and senior management succession planning in FY22.

“The Board recognises the importance of diversity, although it believes that appointments should be made on merit, whilst ensuring that there is an appropriate balance of skills and experience within the Board.”

Harry Morley

Chair of the Nomination Committee
20 July 2021



Report on Directors' remuneration

Remuneration Committee Chair – Annual statement



Catherine Glickman

Chair of the Remuneration Committee

Other members:

Harry Morley

“During March 2020, as it became clear how serious the crisis was, we agreed that the priorities were colleague wellbeing and safety and the financial wellbeing of the business, with colleagues supported by strong and regular communications.”

Dear shareholder,

As Chair of the Remuneration Committee, I present our Directors' Remuneration Report for the 53 week period ended 2 May 2021 ("FY21").

This year's report has a short summary of our remuneration policy, followed by the Annual report on remuneration which sets out payments made to the Directors and demonstrates how Company performance and remuneration were aligned for FY21. The Directors' Remuneration Report is subject to an advisory shareholder vote at our 2021 AGM.

Context for FY21 remuneration decisions

This report is written after a year in which The Works – and most of physical non-essential retail – has been profoundly impacted by the global pandemic. You will have read in other sections about the significant impact on our colleagues, operations and finances. During the 53 week period, there were 16 weeks when all stores were closed and a further eight weeks when at least 75 per cent. of the stores were closed. As a result, the vast majority of our colleagues have been furloughed for long periods. The Committee is grateful to them for their positivity and the outstanding way they have reopened the stores and welcomed customers back. The growth of our online business, including the ramping up to deliver the much higher volumes, has also been impressive, and testament to the teams involved.

We would also like to recognise Gavin Peck's leadership. Almost immediately after appointment, he faced closing stores, managing costs to a minimum and ensuring liquidity. He has risen to every challenge, navigating really tough challenges calmly and thoughtfully. It is vital that we retain and continue to motivate our talented CEO; we explain how we are using reward to do this in my statement and the report.

Whilst FY21 has been a test of our remuneration policy, we believe that it has proved itself. Throughout, we have tried to operate a fair, prudent and balanced approach, marking decisions in the context of our wider workforce and shareholders.

Response to COVID-19

During March 2020, as it became clear how serious the crisis was, we agreed that the priorities were colleague wellbeing and safety and the financial wellbeing of the business, with colleagues supported by strong and regular communications.

We immediately controlled every aspect of cost. The Chair waived his fees whilst Executive and Non-Executive Directors volunteered to accept 33 per cent. reductions in salary and fees respectively for three months. Operations Directors accepted 20 per cent. salary reductions in the first lockdown. We have used the Coronavirus Job Retention Scheme (CJRS) extensively; at its height, we had 3,519 colleagues on furlough from our stores, Distribution Centre and Support Centre. Without it, we would not have been able to retain colleagues and manage costs, and we are grateful to the government for putting the scheme in place. In the first lockdown from 24 March until 30 April 2020, we topped up colleague pay to 100 per cent. of their rate; thereafter colleagues have been on 80 per cent. of either their contracted rates or average historical earnings. We have claimed £19.0m through the job retention schemes in the UK, IOM and ROI. On reopening, we implemented stringent COVID secure measures and, through extensive colleague discussions, ensured colleagues were confident about returning to work. Since April 2021, as stores have reopened at different times across the UK, we have brought colleagues back to work successfully.

We have been very prudent on colleague pay through the year. We have increased our rates for store colleagues in line with increases in the National Living and Minimum Wages; colleagues aged 25 plus received increases of 6.2 per cent. in April 2020 and 2.2 per cent. in April 2021. In April 2021 we applied an average 2 per cent. pay increase to non-minimum wage colleagues and ensured wage differentials for store teams.



Report on Directors' remuneration continued

Remuneration Committee Chair – Annual statement continued

Our performance and incentive outturn for FY21

In last year's Remuneration report, I indicated that the Committee would consider appropriate incentive arrangements for the Executive and Operations Directors for FY21 once we had gained an understanding of the impact of COVID-19 and our business performance post the initial lockdown. Although our stores performed well in the periods when they were able to open, and online performance has been impressive, the impact of COVID-19 (including lockdown enforced store closures) has continued for large parts of FY21. As we used furlough monies to preserve jobs and the CLBILS scheme to support liquidity, together with cancelling dividends, we agreed that a bonus scheme for FY21 would not be appropriate. There have therefore been no bonus payments made to the CEO or Operations Directors in respect of the year.

With recruits over the last two years, we are building a strong, cohesive team of senior management. To retain and motivate them, and align them with shareholders, we made targeted awards of restricted shares. These have proved highly motivational, uniting the team behind growing the market value of the business.

LTIP awards to the CEO

As disclosed in the report, the LTIP awarded to Gavin Peck in following the IPO in 2018 was due to vest in August 2021 subject to the satisfaction of a performance condition based on compound annual growth in underlying basic earnings per share and ending at the end of FY21. The business has not met the threshold and therefore the 2018 LTIP award has lapsed in full.

As explained earlier, we are committed to retaining Gavin as the CEO of The Works. We considered and agreed that we would not make adjustments to the inflight LTIPs, but that meant the current schemes were of negligible value, providing little retention power. The Committee agreed to put in place an award which rewards increasing shareholder value and profitability and will be valuable personally to Gavin over the longer term. We have applied different measures for the LTIP award granted in FY21; half of the award is based on EPS as in the previous design and half on increasing the market value of the Company through growth in the share price. We believe that the CEO has direct influence over both measures; EPS through his management of the Company and share price through interactions with shareholders and the City. Targets are stretching but possible, with a balance based on our appetite for risk. The Committee has discretion to adjust the formulaic vesting based on the overall financial performance of the Group and "windfall gains" at the end of the performance period. The LTIP outturn is capped at £2,500,000. Full details of the targets are given in the report.

The Chair has waived his fee for the three-month period from March to May 2020, and again from February to June 2021. Other than in relation to this reduction, the Committee has not exercised any discretion in the award of Directors' remuneration during the year.

Implementation of our Policy for the 52-week period ending 1 May 2022 (FY22)

Salary and fees

There will be no increase to the CEO's salary for FY22: it remains at £300,000 per annum. There have been no changes to Non-Executive Directors' fees since the IPO in 2018, and no changes are proposed for FY22.

We are delighted that, after a very successful period as Interim CFO, we have appointed Steve Alldridge permanently in this role with effect from 14 May 2021. Steve has been key in ensuring our continued liquidity, working with the banks to secure funding and the CLBILS loan, renegotiating our covenants and providing high quality reports and forecasts to ensure we were able to manage the business. Steve's salary for FY22 will be £210,000 per annum and his pension contribution rate will be 3 per cent. in line with the wider workforce and our remuneration policy.

Annual bonus

For FY22, the maximum bonus opportunity for the Executive Directors (Gavin Peck and Steve Alldridge) will be 100 per cent. of salary. Our refreshed strategy has clear objectives and, for the first time, we wish to target an element of reward on their delivery. The majority of the award – 90 per cent. – will continue to be profit based against stretching EBITDA targets. 10 per cent. will be paid against strategic objectives, which may include developing the brand and increasing customer engagement, or enhancing the online proposition; objectives will be specific and measurable. Any bonus payout is conditional on a threshold level of EBITDA performance being met.

As the details of both the financial and strategic measures are market sensitive, they will be disclosed in full in the Directors' remuneration report for FY22.

LTIP

The Committee intends to grant the Executive Directors LTIP awards in FY22 over shares with a value of up to 100 per cent. of salary; we want to motivate them, reward them for resilient future performance and retain our talented and highly valued Executives. Full details of the performance targets will be included in the regulatory announcement when the awards are granted (likely to be in September 2021), but it is currently intended that the awards will be subject to EPS and share price performance conditions, with a heavier weighting on the EPS measure as we see the share price improve.

Stakeholder engagement

We are delighted to have been recognised as one of Best Companies 25 Best Big Companies to work for, for a third year, not least given the extremely difficult environment in which our colleagues have operated during the year. We know our colleagues are a key part of our customer experience in our stores: their passion and enthusiasm makes The Works a special place to shop and we know that colleague engagement is precious.

The Board receives feedback from employees in a number of ways, including the annual Best Companies engagement survey in which colleagues provide feedback on leadership, personal growth, Giving Something Back as well as pay and benefits. At each Board meeting in FY21, the Board was updated on colleague wellbeing, numbers on furlough or reduced pay and colleague morale. This will continue into FY22, with Non-Executive Directors able to resume their cycle of visits and meetings with colleagues, and the People Director providing updates to the Board.

On behalf of the Board, I would like to thank shareholders for their continued support. I am happy to receive any questions or comments from shareholders at any time and welcome your feedback.

Catherine Glickman

Chair of the Remuneration Committee
20 July 2021



Summary of remuneration policy

Directors' remuneration policy

The Directors' remuneration policy (the "Policy") was approved by shareholders at the AGM on 28 August 2019 (99.99 per cent. of votes cast being in favour) and became effective from that date. There are no proposals to amend the Policy at the 2021 AGM.

A summary of the policy is set out below for reference and to assist with the understanding of the contents of the Annual report on remuneration. The full policy can be found in the 2019 Annual Report which is available to download from the Investors section of the Company's website, www.theworksplc.co.uk, under the heading "Results, Reports and Presentations".

The table summarising the policy below sets out each element of remuneration and how it supports the Group's short-term and long-term strategic objectives.

Policy for Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	Core element of fixed remuneration reflecting individual's role and experience.	The Committee ordinarily reviews base salaries annually taking into account a number of factors including (but not limited to) the value of the individual, the scope of their role, their skills and experience and performance.	Whilst there is no maximum salary, increases will normally be within the range of salary increases awarded (in percentage of salary terms) to other employees of the Group.	None.
Benefits	Fixed remuneration provided on a market competitive basis.	Benefits include the use of a fully expensed car (or car allowance), medical cover for the Executive Director and his/her spouse and dependant children and life assurance scheme.	No absolute maximum on level of benefits, however the value is set at a level which the Committee considers to be appropriately positioned taking into account the nature and location of the role and individual circumstances.	Not applicable.
Pension	Provide a competitive means of saving to deliver appropriate income in retirement.	The Company operates a defined contribution scheme. In appropriate circumstances, an Executive Director may receive a salary supplement in lieu of some or all of the contributions that would otherwise be made to a pension scheme.	Although the policy approved by shareholders in 2019 permits a pension contribution of up to 10 per cent. of salary, Gavin Peck's pension contribution was reduced to 3 per cent. on his promotion to CEO, aligned with the wider workforce. In accordance with the policy approved in 2019, the contributions for any Executive Director appointed in the future will be similarly aligned with the wider workforce. If an Executive Director sacrifices any remuneration into pension, they may also receive a contribution equal to the amount of employer social security saving.	Not applicable.
Annual bonus	Rewards Executive Directors for performance in the relevant year against targets and objectives linked to the delivery of strategy.	Targets and objectives are reviewed annually and any pay-out determined by the Committee after the year end. Annual bonuses will ordinarily be paid in cash, but the Committee has discretion to defer part of the bonus earned into shares for up to two years.	Maximum bonus opportunity is 100 per cent. of base salary.	At least 50 per cent. of bonus opportunity is based on EBITDA or other measure of profit. The balance will be based on financial measures and/or the delivery of strategic/individual measures.



Summary of remuneration policy continued

Policy for Executive Directors continued

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Long Term Incentive Plan (LTIP)	Rewards Executive Directors for the creation of value for shareholders by rewarding the Executive Directors for the achievement of longer-term objectives aligned to shareholders' interests.	Awards may be granted annually to Executive Directors in the form of nil-cost options or conditional awards of shares. Awards will be subject to a three-year vesting period subject to satisfaction of the performance conditions and a two-year post-vesting holding period.	Award maximum of 100 per cent. of base salary, or 200 per cent. of base salary in exceptional circumstances.	Performance measures will be based on financial measures (which may include, but are not limited to, earnings per share, relative total shareholder return). Awards will vest up to 25 per cent. for threshold performance rising to 100 per cent. for maximum performance.
All employee share plans	Aligns staff with the Group and provides a sense of ownership across the employee base.	The Company operates a Save As You Earn Scheme which is open to all eligible staff (including Executive Directors).	UK scheme in line with HMRC limits as amended from time to time.	None.
Shareholding requirement	To support long-term commitment to the Company and the alignment of Executive Directors' interests with those of shareholders.	Executive Directors are required to retain half of all shares acquired under the LTIP (after sales to cover tax and any exercise price) until such a time as their holding as a value is equal to the agreed thresholds.	200 per cent. of salary for CEO; 100 per cent. of salary for other Executive Directors.	None.
Chair and Non-Executive fees	Provides a level of fees within a market competitive range reflecting the individual responsibilities of the role and the expected time commitment.	The Chair and Non-Executive Directors are paid a base fee. An additional fee is paid for the role of Senior Independent Director and holding the position of chair of the Audit Committee; an additional fee may be paid for holding the office of chair of the Remuneration Committee.	The base fees for the Chair and Non-Executive Directors are set taking into account the responsibilities of the role and expected time commitment.	None.



Annual report on remuneration

This report has been prepared in accordance with the applicable regulations and the UK Corporate Governance Code.

Single figure table – Audited information

The following table sets out total remuneration for each Director in respect of FY21.

		Salary and fees ^(a) £000	Benefits ^(b) £000	Pension ^(c) £000	Annual bonus ^(d) £000	Long-term incentive ^(e) £000	Total £000	Total fixed remuneration £000	Total variable remuneration £000
Executive Directors									
Gavin Peck	2021	283	11	9	–	–	303	303	–
	2020	223	11	17	–	–	251	251	–
Non-Executive Directors									
Dean Hoyle	2021	67	–	–	N/A	N/A	67	67	N/A
	2020	83	–	–	N/A	N/A	83	83	N/A
Harry Morley	2021	52	–	–	N/A	N/A	52	52	N/A
	2020	53	–	–	N/A	N/A	53	53	N/A
Catherine Glickman	2021	47	–	–	N/A	N/A	47	47	N/A
	2020	48	–	–	N/A	N/A	48	48	N/A

* 2020 remuneration for Gavin Peck reflects his pay as CFO until 16 January 2020 and as CEO from that date.

- (a) Salary and fees The amount of salary/fees earned in respect of the year. The salary and fees for 2020 and 2021 reflect the voluntary reductions referred to below.
- (b) Benefits The taxable value of benefits received in the year; these are principally private medical insurance and car or car allowance.
- (c) Pension The pension figure represents the cash value of pension contributions for the Executive Director to the defined contribution pension arrangement and any cash payments in lieu of pension contributions made in the year.
- (d) Annual bonus The cash value of the bonus earned in respect of the financial year. An explanation of the decisions on the annual bonus is given on page 59.
- (e) Long-term incentives The first awards granted under the Company's Long Term Incentive Plan (LTIP) were made in FY19 and were subject to a three-year vesting period ending in FY21. As noted below, the performance targets were not met, and the awards have lapsed. Therefore no figures are included for LTIP in the single figure table.

Additional disclosures in respect of the single figure table – Audited Information

Base salary and fees

Gavin Peck's salary during the year was £300,000 per annum and his pension contribution was 3 per cent. aligned with rates available to the wider workforce. In response to the closure of stores and furloughing of colleagues due to the COVID-19 pandemic, Gavin Peck agreed to a 33 per cent. salary reduction for three months from 1 April 2020, which is reflected in the single figure table above.

Details of Chair and Non-Executive Directors' fees are set out below. These are the same fee levels as have applied since Admission. In response to the closure of stores and furloughing of colleagues due to the COVID-19 pandemic, the Chair agreed to a 100 per cent. fee reduction for three months from 1 March 2020 (and a further 100 per cent. reduction from February to the end of FY21), and the Non-Executive Directors agreed to a 33 per cent. fee reduction for three months from 1 April 2020.

	Base fee £
Chair's fee	100,000
Harry Morley	55,000
Catherine Glickman	50,000



Annual report on remuneration continued

Annual incentive plan – Audited Information

As explained in the FY20 Remuneration report, we stated that we would consider awarding a bonus based on stretching financial performance measures coupled with a small number of non-financial strategic measures. As the year progressed, it became abundantly clear that it would not be appropriate to award any short-term bonus given that, although our online offer remained robust, our stores were closed, we were using the Coronavirus Job Retention Scheme (CJRS) and CLBILS and we had cancelled the dividend.

Long-term incentives

2018 LTIP award vesting

Awards granted in 2018 under the LTIP were subject to a three-year performance condition requiring compound annual growth in the Company's underlying basic earnings per share (EPS) of 17.5 per cent. to 26.5 per cent. (with vesting outturn calculated on a straight-line basis between 20 per cent. and 100 per cent. of maximum opportunity). The minimum vesting threshold was not achieved, and therefore the awards (including the associated CSOP award) have lapsed.

Awards granted during the financial year – Audited Information

As described in the Remuneration Committee Chair's letter on page 51, the Board is committed to retaining Gavin Peck as the CEO of The Works. Recognising that inflight LTIP awards are of negligible value and therefore offer little retention power, the Committee agreed to make an LTIP award during the year which will reward increasing shareholder value and profitability.

An LTIP award was therefore granted to the CEO equal to 100 per cent. of his salary on 15 February 2021 on the following basis:

	Type of award ¹	Maximum opportunity	Number of shares	Face value at grant £ ¹	% of award vesting at threshold	Performance period ²
Gavin Peck	LTIP	100% of salary	847,457	300,000	20%	See footnote 2

1 For these purposes, the face value of the award is calculated by multiplying the number of shares over which the award was granted by 35.4 pence, the average closing share price for each of the three business days prior to the date of grant.

2 The award is subject to performance conditions assessed over the Company's FY21, FY22 and FY23 financial years as regards the EPS element of the performance condition, with the share price element of the performance condition assessed following the announcement by the Company of its Full-Year Trading Update for its FY23 financial year (as described further below). To the extent the awards vest following the end of the performance period, they are subject to a further two-year holding period before the shares are released.

A summary of the performance conditions for this award (with half of the award based on EPS, and half on share price) is set out in the interests under Share Schemes section below. The Committee believes that the CEO has direct influence over both measures, and that targets are stretching but achievable.

Statement of Directors' shareholding and share interests – Audited information

The number of shares of the Company in which current Directors had a beneficial interest and details of long-term incentive interests of the Executive Directors as at 2 May 2021 are set out in the table below.

	Outstanding scheme interests 2 May 2021			Beneficially owned shares		
	Unvested LTIP interests subject to performance conditions	Scheme interests not subject to performance measures	Total shares subject to outstanding scheme interests ¹	27 April 2020	2 May 2021	Total of all scheme interests and shareholdings at 2 May 2021
Executive Directors						
Gavin Peck	1,215,033	–	1,215,033	554,636	554,636	1,769,669

1 The tax qualifying CSOP awards granted as part of the 2018 and 2019 awards are not included in these numbers, reflecting that if they were to be exercised the LTIP element of those awards would be reduced to reflect the gain on the CSOP element, as referred to on page 57.

	Outstanding scheme interests 2 May 2021			Beneficially owned shares		
	Unvested LTIP interests subject to performance conditions	Scheme interests not subject to performance measures	Total shares subject to outstanding scheme interests	27 April 2020	2 May 2021	Total of all scheme interests and shareholdings at 2 May 2021
Non-Executive Directors						
Dean Hoyle	–	–	–	10,470,956	10,470,956	10,470,956
Harry Morley	–	–	–	31,125	100,000	100,000
Catherine Glickman	–	–	–	31,812	77,244	77,244

There have been no changes to the interests of the Directors between 2 May 2021 and the date of this report other than the lapse of Gavin Peck's LTIP award granted in 2018, as referred to in the following table.

**Executive Directors' interests under share schemes – Audited information**

The table below sets out the Executive Directors' interests in the LTIP.

The LTIP awards are subject to performance conditions as set out in the table below.

	Award date	Vesting, exercise or release date	As at 26 April 2020	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares at 2 May 2021	Exercise price
Gavin Peck								
LTIP	22 August 2018 ¹	N/A ²	116,959	–	–	–	116,959	N/A
	3 September 2019 ¹	3 September 2022	250,617	–	–	–	250,617	N/A
	15 February 2021	15 February 2024	–	847,457	–	–	847,457	N/A

1 In addition to their LTIP award, the Executive Directors were also granted tax qualifying CSOP awards over 17,543 shares with an exercise price of £1.71 (2018) and 37,037 shares with an exercise price of £0.81 (2019). To the extent a CSOP award is exercised at a gain, the extent to which the associated LTIP award can be exercised shall be reduced by the amount of the gain so that there is no increase in the pre-tax value of the award. The CSOP award granted in 2018 has lapsed as referred to in footnote 2.

2 As noted above, the performance condition for this award was not met and the award has lapsed.

LTIP awards made in 2018 and 2019 vest on the basis of compound annual growth in the Company's underlying basic earnings per share over the three-year performance period. As noted above, the award granted in 2018 has lapsed. Vesting of the award granted in 2019 will be based on the following compound annual growth in EPS targets:

Award year	Vesting level		
	20%	Straight line between 20% and 100%	100%
2019	10%	Greater than 10% but less than 22.1%	22.1%

Vesting of the LTIP award made in February 2021 is based on EPS and share price targets as set out in the table below:

Measure	Weighting	Threshold (20% vesting)	Maximum (100% vesting)
EPS ¹	50%	3.1p	13.1p
Share price ²	50%	£0.50	£2.00

1 Basic EPS for the Company's 2022/2023 financial year, pre-IFRS 16 and subject to such adjustments as the Remuneration Committee determines to ensure that performance is assessed on a fair and consistent basis.

2 Average share price over the period of four weeks beginning with the announcement by the Company of its Full-Year Trading Update for its 2022/2023 financial year.

LTIP awards are subject to performance underpins. The February 2021 award has an additional "windfall gains" underpin and a cap; these are explained below.

The 2019 award is subject to a general performance underpin, whereby the Committee shall assess overall financial performance of the Group over the performance period in determining the level of vesting.

The February 2021 award – in addition to the general performance underpin – is subject to an assessment of whether any of the value of the award on assessment of the performance condition represents a "windfall gain" and also to a cap such that the value of the vested shares, determined by reference to the price used to assess the share price element of the performance condition, may not exceed £2,500,000.

Directors' share ownership guidelines – Audited information

The Committee has adopted a shareholding guideline for the Executive Directors, which requires a shareholding equivalent to 200% of base salary for the Chief Executive Officer and 100% of base salary for other Executive Directors. Gavin Peck's progress towards meeting this requirement at 2 May 2021, based on the share price at the end of the financial year, is summarised below.

Executive Director	Shares counting towards the guideline at 2 May 2021	Value of shares counting towards the guideline ¹	Value of shares as a percentage of base salary	Shareholding guideline met?
Gavin Peck	554,636	£328,899	110%	No

1 Based on a share price of 59.3 pence as at 30 April 2021 (being the last trading day prior to the year end of 2 May 2021).



Annual report on remuneration continued

Performance graph and historical Chief Executive Officer remuneration outcomes

The graph below shows the TSR performance for the Company's shares in comparison to the FTSE SmallCap for the period from Main Market Admission on 19 July 2018 to 2 May 2021. The TSR performance of the FTSE SmallCap index has been selected as it is considered the most appropriate comparator group to which to compare the Company. For the purposes of the graph, TSR has been calculated as the percentage change during the period in the market price of the shares, assuming that dividends are reinvested. The graph shows the value, by 2 May 2021, of £100 invested in shares in the Company on 19 July 2018 compared with £100 invested in the FTSE SmallCap.



Source: Thomson Reuters Datastream.

The table below sets out the total remuneration delivered to the CEO over the last four financial years, valued using the methodology applied to the single total figure of remuneration. The Remuneration Committee does not believe that the remuneration paid in earlier years as a private company bears any comparative value to that paid in its time as a public company and, therefore, the Remuneration Committee has chosen to disclose remuneration only for the three most recent financial years (with the figures for FY19 being for the period from Admission on 19 July 2018 to 28 April 2019):

Year (CEO)	Total single figure remuneration £000	Annual bonus payout (% of maximum opportunity)	LTIP vesting (% of maximum number of shares) ¹
2021 (Gavin Peck)	303	0%	0%
2020 (Gavin Peck – from 16 January 2020)	85	0%	N/A
2020 (Kevin Keaney – until 16 January 2020)	267	0%	N/A
2019 (Kevin Keaney)	288	0%	N/A

¹ There were no LTIP awards which vested in respect of performance ending during the relevant year.

Change in remuneration of Directors compared to Group employees

The table below sets out the change in salary and fees, benefits and bonus paid to each of the Company's Directors from FY20 to FY21. The regulations also require a comparison of the change in the remuneration of the employees of TheWorks.co.uk plc. The Company has no employees other than the Executive Directors and, accordingly, strictly no disclosure is required. Given the added complexities of the impact in FY21 of furlough, the Company has not included the average employee salary changes but, in the interests of transparency and having regard to the approach adopted in FY20, has provided information on the approach to the change in salary of the Group's UK employees.

	% change in element between FY20 and FY21		
	Salary and fees	Taxable benefits	Annual bonus
Executive Directors			
Gavin Peck ¹	27%	(0)%	N/A ²
Non-Executive Directors³			
Dean Hoyle	(23)%	N/A	N/A
Catherine Glickman	(2)%	N/A	N/A
Harry Morley	(2)%	N/A	N/A
UK employees' average	See Note 8	23.49% ⁵	(60.40) ⁶

¹ The change in Gavin Peck's salary and fee reflects the full-year effect of his higher salary as CEO (his salary was increased in January 2020 when he assumed the role of CEO having served as CFO prior to that date). The change also takes into account his voluntary reduction in remuneration in FY21.

² No CEO bonus was earned in respect of FY20 or FY21.



- 3 The change in Non-Executive Director fees between FY20 and FY21 reflects the 33 per cent. fee reductions which applied in May and June 2020 for Catherine Glickman and Harry Morley, and in May 2020 and from February 2021 to April 2021 for Dean Hoyle.
- 4 The vast majority of our colleagues have been furloughed for long periods of FY21, and the average change in employee salary would not, therefore, be a meaningful disclosure. During FY21, rates for store colleagues were increased in line with increases in the National Living and Minimum Wages, with colleagues aged 25 plus receiving increases of 6.2 per cent. in April 2020 and 2.2 per cent. in April 2021. We applied an average 2 per cent. increase to non-minimum wage colleagues and maintained wage differentials for store teams.
- 5 The increase in the UK employees' average benefits reflects an increase of eight additional roles that attract taxable benefits as well as full-year costs for new hires in FY20. Although there is a relatively large percentage increase, this reflects an increase in the average value of benefits provided from c.£117 to c.£145.
- 6 The reduction in the UK employees' average bonus reflects that standard bonus schemes were removed for FY21, with only a small number of exceptional bonuses being paid.

Relative importance of spend on pay

The following table sets out the total remuneration for all employees and the total shareholder distributions in FY20 and FY21. All figures provided are taken from the relevant Company accounts.

	FY20 £000	FY21 £000	Percentage change
Total remuneration for all employees (including Executive Directors)	54,400	49,988	(8.1)%
Dividends and share buybacks	2,250	–	(100)%

CEO pay ratio

The table below shows how the CEO's remuneration (as taken from the single figure remuneration table on page 55 and, therefore, taking into account the CEO's voluntary reduction in remuneration (as referred to below) compares to equivalent remuneration for full-time equivalent UK employees, ranked at the 25th, 50th and 75th percentile.

Year	Method	Pay ratio			Remuneration values (£)		
		25th percentile	Median	75th percentile	25th percentile	Median	75th percentile
FY21	Option C	17:1	16:1	15:1	Salary only	18,138	19,448
					Total remuneration	18,138	19,675
FY20	Option C	21:1	19:1	17:1	Salary only	17,077	19,925
					Total remuneration	17,077	20,338

- 1 The regulations set out three methodologies for determining the CEO pay ratio. We have chosen "Option C" because the other options were considered inappropriate given the impact of the furloughing of employees in response to the COVID-19 pandemic. The use of "Option C" is consistent with FY20 calculations.
- 2 As ratios could be unduly impacted by joiners and leavers who may not participate in all remuneration arrangements in the year of joining and leaving, the Committee has modified the statutory basis to exclude any employee not employed throughout the financial year.
- 3 Employee pay data is based on full-time equivalent (FTE) base pay for UK employees as at 31 March 2021 (based on FTE salary for salaried employees and hourly pay rates for hourly paid employees), to which actual pension contributions, bonus and benefits have been added, except that the value of SAYE options granted in August 2019 has been excluded (for the purposes of the FY20 calculations) as their value is not considered to have a significant impact on the CEO pay ratio and sourcing the data for each employee is administratively burdensome. The employees have then been ranked by FTE pay and benefits calculated on this basis and the employees at the 25th percentile, 50th percentile (median) and 75th percentile have been identified. The FTE pay and benefits calculated on this basis for those three employees are then compared to the CEO single figure of remuneration to calculate the ratios; the calculations do not, therefore, take into account the impact of those employees having been furloughed during FY21.
- 4 For FY20 the CEO single figure of remuneration used comprises the single total figure for FY20 for Kevin Keaney, plus the single total figure for Gavin Peck for the period of the year from his appointment as CEO (16 January 2020) to 26 April 2020.

The reduction in the pay ratios between FY20 and FY21 are principally attributable to the voluntary reduction in the CEO's remuneration during FY21 and the current CEO's remuneration being less than the former CEO's remuneration, resulting in a c.14 per cent. reduction in the CEO remuneration between FY20 (£352,000) and FY21 (£303,000). As a result of the exceptional circumstances in FY21 as a result of furlough and voluntary reductions to remuneration, it is not possible to identify a particular trend in the median pay ratio. The Company considers that the median pay ratio is consistent with pay, reward and progression policies for the Company's employees as a whole.

Payments to past Directors and for loss of office – Audited information

As previously disclosed, Kevin Keaney stepped down as CEO and as a Director of the Company on 16 January 2020. Details of payments made to him after this date were set out on page 58 of the Company's FY20 Directors' remuneration report. No other payments for loss of office or to past Directors were made during FY21.

Implementation of the Directors' remuneration policy for FY22

Information on how The Works intends to implement the Directors' remuneration policy for FY22 is set out below.

Gavin Peck will not receive a salary increase for FY22, and therefore his base salary will remain £300,000. As noted in the Remuneration Committee Chair's statement, Steve Alldridge's salary has been set at £210,000.

The Chair and Non-Executive fees have not changed since being set at Admission, and no changes are proposed for FY22.

Annual bonus

The Executive Directors' maximum bonus for FY22 will be up to 100 per cent. of salary. The majority of the award (90 per cent.) will be subject to performance against stretching EBITDA targets. The remaining 10 per cent. will be subject to performance against key strategic objectives, with clear, measurable targets against each objective. As targets (both financial and strategic) under the annual bonus are considered commercially sensitive, these will be disclosed retrospectively in the FY22 Annual Report.



Annual report on remuneration continued

LTIP

As noted in the statement from the Chair of the Remuneration Committee on page 51, we currently intend to grant the CEO and CFO an LTIP award in FY22 over shares with a value equal to 100 per cent. of salary. However, the Committee will be mindful of any share price movements when taking a final decision as the value of the award which will be granted after this report has been published.

Full details of the performance measures applying to the award will be included in the regulatory announcement when they are granted (likely to be in September 2021). It is currently intended that the awards will be subject to EPS and share price performance condition, with a heavier weighting towards the EPS measure.

The award will also be subject to a general performance underpin, whereby the Committee shall assess overall financial performance of the Group over the performance period in determining the level of vesting.

Consideration by the Directors of matters relating to Directors' remuneration

The Remuneration Committee is composed of two independent Non-Executive Directors: Catherine Glickman and Harry Morley. The Chair of the Remuneration Committee is Catherine Glickman.

The Remuneration Committee met a total of four times during the year, and has met once since the year end and all members of the Remuneration Committee attended those meetings. The Committee's key responsibilities are:

- reviewing the ongoing appropriateness and relevance of Remuneration policy;
- reviewing and approving the remuneration packages of the Executive Directors;
- recommending and monitoring the level and structure of remuneration of senior management; and
- production of the annual report on the Directors' remuneration.

When determining the application of the Directors' remuneration policy in FY21, the Committee considered the factors of clarity, simplicity, risk, predictability, proportionality and alignment to culture as referred to in the UK Corporate Governance Code. In particular, these were reflected in Gavin Peck's LTIP award which is subject to simple and transparent performance measures based on our appetite for risk, with a specific monetary cap added as a further risk mitigation.

As part of its work, the Committee reviews the remuneration for the wider workforce and related policies, and takes these into account when setting the policy for Executive Director and senior management remuneration. During FY21, the exceptional circumstances of the COVID-19 pandemic and the associated furloughing of the vast majority of our colleagues for long periods meant that the Committee was unable to engage directly with them in relation to Executive remuneration.

The Remuneration Committee has evaluated its performance this year with a questionnaire completed by Committee members and regular attendees. The evaluation outcome was discussed at the Remuneration Committee's April 2021 meeting. It confirmed that the Committee operates effectively, but reiterated the need for the Committee to continue to ensure that the Remuneration policy and incentive arrangements operate effectively to incentivise, motivate and retain the Executive and Operational Directors and senior management.

Advisors

The following people have provided advice to the Committee during the year in relation to its consideration of matters relating to Directors' remuneration:

- Chair, Chief Executive Officer, Chief Financial Officer, People Director and Company Secretary; and
- Deloitte LLP ("Deloitte")

Deloitte is retained to provide independent advice to the Committee as required. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operated under the Code of Conduct in relation to Executive remuneration consulting in the UK. Deloitte's fees for providing remuneration advice to the Committee were £5,400 for FY21. The Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender and takes into account the Remuneration Consultants Group Code of Conduct when considering this.

Deloitte was appointed by the Committee and has provided share scheme advice and general remuneration advice to the Company.

Shareholder voting at AGM

The following table shows the results of the binding vote on the Directors' remuneration policy at our 2019 AGM, and the advisory vote on the Directors' remuneration report at our 2020 AGM:

	Approval of the Remuneration policy		Approval of the Directors' remuneration report	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	50,116,302	99.99	36,875,984	99.96
Against	1,500	0.01	14,684	0.04
Withheld	0	N/A	0	N/A

Approval

This report was approved by the Board on 20 July 2021 and signed on its behalf by:

Catherine Glickman

Chair of the Remuneration Committee
20 July 2021



Directors' report

The Directors present their report for the financial 53 week period ended 2 May 2021 (the "Period"). Additional information which is incorporated by reference into this Directors' Report, including information required in accordance with the Companies Act 2006 and Listing Rule 9.8.4R of the UK Financial Conduct Authority's Listing Rules, can be located as follows:

Disclosure	Location
Future business developments	Strategic report – pages 4 to 14
Environmental policy	Sustainability report – pages 32 to 39
Employee engagement	Sustainability report – pages 32 to 39 and Corporate governance report – pages 43 to 45
Diversity policy	Nomination Committee report – page 49
Viability	Viability statement – pages 28 and 29
Section 172 statement	Page 30
Stakeholder engagement in key decisions	Section 172 statement – page 30
Corporate governance statement	Page 43
Financial risk management objectives and policies (including Hedging Policy and use of financial instruments)	Note 25 to the financial statements – pages 98 to 102
Exposure to price risk, credit risk, liquidity risk and cash flow risk	Note 25 to the financial statements – pages 98 to 102
Details of long-term incentive schemes	Directors' remuneration report – page 55
Statement of Directors' responsibilities	Page 64

The Corporate governance statement on pages 43 to 45 forms part of the Directors' report.

Directors

The Directors of the Company who held office during the period are set out below; summaries of the current Directors' key skills and experience can be found on pages 40 and 41 of the Corporate governance report. There were no changes to the Directors during the year. Steve Alldridge was appointed as permanent CFO, and as a Director of the Company, with effect from 14 May 2021.

Dean Hoyle (Chair)
Gavin Peck (CEO)
Harry Morley (Senior Independent Director)
Catherine Glickman (Non-Executive Director)

Results and dividend

The results for the year are set out in the Consolidated income statement on page 72. The Directors are not proposing a final dividend for the Period.

Articles of Association

The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association ("Articles"). The Articles of Association may be amended by a special resolution of the Company's shareholders. The Articles of Association also set out in full the powers of the Directors in relation to issuing shares and buying back the Company's own shares.

Share capital

Details of the Company's share capital, including changes during the year, are set out in Note 38 to the financial statements. As at 2 May 2021, the Company's issued share capital consisted of 62,500,000 ordinary shares of 1 pence each. There have been no changes to the Company's issued share capital since the Period end.

Ordinary shareholders are entitled to receive notice of, and to attend and speak at, any general meeting of the Company. On a show of hands every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share of which he is the holder. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies.

Other than the general provisions of the Articles of Association (and prevailing legislation) there are no specific restrictions of the size of a holding or on the transfer of the ordinary shares.

The Directors are not aware of any agreements between holders of the Company's shares that may result in the restriction of the transfer of securities or on voting rights. No shareholder holds securities carrying any special rights or control over the Company's share capital.

Authority for the Company to purchase its own shares

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Act. Any shares which have been bought back may be held as treasury shares or cancelled immediately upon completion of the purchase.

At the Company's Annual General Meeting held on 30 September 2020, the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of Section 693 of the Companies Act 2006) up to a maximum of 6,250,000 of its ordinary shares. The Company has not repurchased any of its ordinary shares under this authority, which is due to expire at the Annual General Meeting to be held on 30 September 2021, and accordingly has an unexpired authority to purchase up to 6,250,000 ordinary shares with a nominal value of £62,500.00. A resolution to renew the authority for a further year will be proposed at the 2021 Annual General Meeting.



Directors' report continued

Directors' interests

The number of ordinary shares of the Company in which the Directors were beneficially interested as at 2 May 2021 is set out in the Directors' remuneration report on page 55.

Directors' indemnities

The Company's Articles provide, subject to the provisions of UK legislation, an indemnity for Directors and Officers of the Company and the Group in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers.

Directors' and Officers' liability insurance cover is maintained by the Company and is in place in respect of all the Company's Directors at the date of this report. The Company will review its level of cover on an annual basis.

Compensation for loss of office

The Company does not have any agreements with any Executive Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's Long Term Incentive Plan and other share schemes may cause options and awards outstanding under such schemes to vest on a takeover. Further information is provided in the Directors' remuneration report on page 55.

Significant interests

The table below shows the interests in shares notified to the Company in accordance with the Disclosure Guidance and Transparency Rules as at 2 May 2021, and 14 July 2021 (being the latest practicable date prior to publication of the Annual Report):

Name of shareholder	As at 2 May 2021		As at 14 July 2021	
	Number of ordinary shares of 1 pence each held	Percentage of total voting rights held	Number of ordinary shares of 1 pence each held	Percentage of total voting rights held
Schroders plc	11,430,141	18.28%	11,430,141	18.28%
Dean Hoyle ¹	10,470,956	16.75%	10,470,956	16.75%
Jupiter Fund Management plc	8,766,500	14.02%	8,766,500	14.02%
Canaccord Genuity Group plc	5,899,600	9.44%	5,899,600	9.44%
Octopus Investments Limited	2,033,300	3.25%	2,033,300	3.25%

¹ Includes interest of Janet Hoyle.

Branches outside the UK

Other than stores located in the Republic of Ireland, the Company has no branches outside the UK.

Employee involvement

Information relating to employees of the Group and how the Company engages with its workforce can be found in our Sustainability report on pages 32 to 39.

Disabled employees

It is the policy of the Group to provide equal recruitment and other opportunities for all employees regardless of sex, age, religion, race, disability or sexual orientation. The Group gives full consideration to applications for employment from disabled people, where they adequately fulfil the requirements of the job. Once employed by the Group, we ensure that disabled employees have full access to training and career development opportunities. Where employees become disabled, it is the Group's policy to provide continuing employment and retraining where practicable.

Political donations

The Company did not make any political donations during the year.

Change of control – significant agreements

There are a number of agreements that may take effect after, or terminate upon, a change of control of the Company, such as commercial contracts, bank loan agreements and property lease arrangements.

The only significant agreement to which the Company is a party that takes effect, alters or terminates upon a change of control of the Company following a takeover bid, and the effect thereof, is the Company's committed bank facility dated 13 August 2020 which contains a provision such that, in the event of a change of control, the facility may be cancelled and all outstanding amounts, together with accrued interest, will become repayable on the date falling 30 days following written notice being given by the lenders that the facility has been cancelled.



Audit information

Each of the Directors at the date of the approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the reasonable steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

KPMG LLP have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held on 30 September 2021. The Notice of Annual General Meeting is contained in a separate letter from the Chair accompanying this report.

Post-balance sheet events

Other than as disclosed in the Strategic report, there have been no material post-balance sheet events involving the Company or any of the Company's subsidiaries as at the date of this report.

The Strategic report on pages 8 to 39 and this Directors' report have been drawn up and presented in accordance with, and in reliance upon, applicable English company law and any liability of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law.

By order of the Board

Steve Alldridge

Chief Financial Officer
20 July 2021



Statement of Directors' responsibilities

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International accounting standards in conformity with the Companies Act 2006 and applicable law and have elected to prepare the Parent Company financial statements in accordance with accounting standards including FRS 101 Reduced Disclosure Framework. In addition the Group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU").

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group annual statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRS as adopted by the EU");
- for the Parent Company annual statements, state whether appropriate UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company annual statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' Remuneration Report and Corporate Governance report that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Steve Alldridge
Chief Financial Officer
20 July 2021



Independent auditor's report

To the Members of TheWorks.co.uk plc

1. Our opinion is unmodified

We have audited the financial statements of The Works.co.uk PLC ("the Company") for the 53 week period ended 2 May 2021 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated cash flow statement, Company statement of financial position, Company statement of changes in equity and the related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 2 May 2021 and of the Group's loss for the 53 week period then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 11 July 2018. The period of total uninterrupted engagement is for the 3 financial years ended 2 May 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality:	£500k (2020: £331k)
group financial statements as a whole	0.28% (2020: 0.15%) of revenue

Coverage	100% (2020: 100%) of revenue
-----------------	------------------------------

Key audit matters		2021 vs 2020
Recurring risks	Existence and valuation of inventory held in stores	▲
	Carrying amount of store assets (including property, plant and equipment and right-of-use assets)	▼
	Going concern	▼
	Carrying amount of Parent Company investment in subsidiaries	▼



Independent auditor's report continued

To the Members of TheWorks.co.uk plc

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The risk	Our response
<p>2.1 Provisions for existence and valuation of inventory held in the stores £4.4m (2020: £1.9m)</p> <p>Refer to page 46 (Audit Committee report), page 94 (accounting policy and financial disclosures).</p> <p>Subjective estimation Inventory is a significant balance. It is held in stores, at the company's warehouse and at a 3rd party logistics provider. The risks described below relate to inventory held in the stores.</p> <p>Existence It is usual in a retail environment for differences to arise between the inventory records and physical quantities for a variety of reasons, including theft and other losses, often referred to as shrinkage.</p> <p>The existence of inventory and the extent of any shrinkage is assessed by management through periodic inventory counts throughout the year ("management's count processes"). The inventory records are adjusted to reflect results of management's count processes. A shrinkage provision is established to cater for an estimate of the losses incurred between the count dates and the year end.</p> <p>Management's count processes in the stores has been disrupted significantly by COVID as stores have been closed for extended periods and store employees have been on furlough. As a result, management has not been able to confirm the existence of all store inventory during the course of the year. Therefore, management has conducted sample counts in April and has estimated the level of shrinkage on this basis. The sample counts represent a relatively small proportion of the total inventory balance and it is possible that they may not be representative of the population as a whole.</p> <p>Valuation Goods for resale are carried at the lower of cost and net realisable value. A provision is established for the difference ("NRV provision").</p> <p>Net realisable value is determined at a product level and is an estimate based on current and expected sales prices, taking into account likely customer demand and levels of sales price discounting required.</p> <p>A small number of seasonal stock lines (e.g. diaries) have a limited shelf life, but the majority of stock lines do not. Seasonal items will be heavily discounted if they are not sold in season. Other stock lines may be slow selling because they have been less successful than planned or become fragmented are usually discounted. This stock is referred to as terminal stock.</p> <p>The closures of the stores due to the COVID-19 pandemic also interrupted the company's normal process of selling through terminal stock. As a result, the level of terminal stock was higher at the year end than is usual. The NRV provision has increased correspondingly to £1.8 million (FY20: £0.6 million).</p> <p>There is a risk that the Group's assessment of the level of these provisions is insufficient or inaccurate.</p> <p>Our assessment is that the risk over the provisions for existence and valuation of inventory held in the stores has increased since last year as a result of COVID-related store closures.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the provision for existence and valuation of inventory held in the stores has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 17) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <p>Existence</p> <ul style="list-style-type: none"> • Tests of detail: We initially counted 1,521 line items at 25 stores and compared our count results with the company's inventory records. Reflecting the results of this procedure, we then counted a further 1,200 line items at 12 stores. • Assessing methodology: We assessed the methodology used by the group to calculate the shrinkage provision. • Independent reperformance: We performed our own evaluation of the projected shrinkage based on our count results, which we compared to management's estimate. We performed an assessment of whether an understatement of the shrinkage provision identified through this procedure was material. • Assessing transparency: We assessed the adequacy of the group's disclosures about the degree of estimation involved in arriving at the shrinkage provision, including the impact of the understatement noted above. <p>Valuation</p> <ul style="list-style-type: none"> • Assessing methodology: We assessed the appropriateness of the Group's NRV provision against accounting standards. • Our sector experience: We assessed and challenged the directors' assumptions behind the provision methodology against our own knowledge of the industry and factors specific to the Group. • Assessing assumptions: We tested the key assumptions included in the provisioning model, including specific product categories and post financial year-end sales prices by considering post year end sales analysis and the group's plans for terminal and seasonal stock. • Assessing methodology: We assessed the methodology used by the group to calculate the NRV provision. • Independent reperformance: We developed our own estimate of the NRV provision based on a range of factors including sales prices, product categories and post financial year-end sales prices, which we compared to management's estimate. We performed an assessment of whether an overstatement of the NRV provision identified through this procedure was material. • Assessing transparency: We assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the NRV provision, including the impact of the overstatement noted above. <p>We performed the detailed tests above rather than seeking to rely on any of the group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.</p> <p>Our results Having considered the understatement identified in relation to the shrinkage provision and overstatement in relation to the NRV provision, we found the provisions for existence and valuation of inventory held in the stores to be acceptable (2020: acceptable).</p>



2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
2.2 Carrying amount of store assets (including property, plant and equipment and right-of-use assets) Property, plant and equipment: £18,325k; (2020: £21,061k) Right-of-use assets £111,741k (2020: £116,763k) Refer to page 46 (Audit Committee report), page 88 (accounting policy and financial disclosures).	Forecast-based assessment The UK government trade restrictions implemented on 23 March 2020 and again in November 2020 and January 2021 as a result of the COVID-19 pandemic are considered an impairment trigger and as a result all stores have been tested for impairment. An impairment charge of £1.0 million and an impairment reversal of £1.9 million has been recognised in the year resulting in a net credit of £0.9 million being recorded within adjusting items as set out in Note 6 and Note 14 to the financial statements. The Group considers that each retail store constitutes its own cash generating unit ('CGU') and is assessed for impairment separately. As described in Note 14 to the financial statements, the Group has estimated the recoverable amount of store assets based on their value in use, derived from a discounted cash flow model prepared by management. The model relies on certain assumptions and estimates of future trading performance all of which involve a high degree of estimation uncertainty (as disclosed in Note 1 and Note 14). Future revenue growth is the key assumption applied by management in the impairment reviews performed. The effect of these matters is that, as part of our risk assessment, we determined that the carrying value of store assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. However, in light of the progress made in the roll-out of the vaccination programme in the UK and the reduced uncertainty regarding the impact of the COVID-19 pandemic we have assessed that the level of estimation uncertainty is lower than in the prior year. The financial statements (Note 14) disclose the sensitivity estimated by the Group.	Our procedures included: <ul style="list-style-type: none"> • Assessing assumptions: assessing the key assumptions (including growth rates in turnover), as included in the directors' business plans and approved at the period-end date, by considering historic store performance and industry forecasts to set our own expectations; • Sensitivity analysis: applying sensitivity analysis on the key assumptions used in the cash flow forecasts to assess the possible range of outcomes and the overall risk of any material impairment; • Historical comparison: We evaluated the historical accuracy of the Group's forecasts by comparing previous budget to actual results; • Test of detail: testing the accuracy of amounts included in the impairment tests to underlying information included in the directors' business plans, and testing the completeness of store assets included in the Group's store-by-store impairment tests; • Assessed transparency: assessing the transparency of the disclosure about the judgements and estimates made, the impairments recorded and reversed and the sensitivity to reasonably possible changes in key assumptions included in the financial statements. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.
2.3 Going concern Refer to page 46 (Audit Committee report), page 77 (accounting policy and financial disclosures).	Disclosure quality The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources and/or metrics relevant to debt covenants over this period were those associated with the ongoing impact of COVID-19 including the potential for government imposed shop closures or changes to consumer behaviour as a result of the pandemic. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed. In light of the progress made in the roll-out of the vaccination programme in the UK, the reduced uncertainty regarding the impact of the COVID-19 pandemic, and the financing available to the Group, we have assessed that the level of risk is lower than in the prior year.	We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant headroom indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. Our procedures included: <ul style="list-style-type: none"> • Funding assessment: Considering the availability and sufficiency of the financing arrangements in place at the Group, including the headroom on financial covenants in place on the Group's new revolving credit facility; • Sensitivity analysis: Challenging the stress testing performed by the Directors considering the severe but plausible scenarios that could arise, including those which could result from COVID-19; • Historical comparisons: Assessing historical forecasting accuracy, by comparing previous forecast results to those actually achieved by the Group and challenging the consistency of sales assumptions with the Group's performance during previous COVID-19 lockdowns; • Assessing assumptions: Assessing the key assumptions (including growth rates in turnover and margin expectations) as included in the directors' business plans and approved at the period-end date by considering historic store performance and industry forecasts to set our own expectations. • Evaluating directors' intent: Evaluating the achievability of the actions the directors consider they would take to improve the position should the risks materialise, taking into account the extent to which the directors can control the timing and outcome of these. • Comparing assumptions: Considering whether the forecasts and assumptions used by the Directors are consistent with other forecasts used by the Group (including those used to assess recoverability of Parent Company investments in subsidiaries and recoverability of store assets); • Assessing transparency: Considering whether the going concern disclosure in the basis of preparation of the accounts gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and corresponding assumptions. Our results We found the going concern disclosure in the basis of preparation of the accounts without any material uncertainty to be acceptable (2020: with a material uncertainty, acceptable).



Independent auditor's report continued

To the Members of TheWorks.co.uk plc

2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
2.4 Carrying amount of Parent Company investment in subsidiaries £57.3m (2020: £19.0m) Refer to page 46 (Audit Committee report), page 108 (accounting policy and financial disclosures).	Forecast-based assessment The carrying amount of the Parent Company's investments in subsidiaries represents 80.1% (2020: 39.9%) of the Parent Company's total assets. The net assets of the subsidiaries are less than the carrying amount of the Parent Company's investment which is therefore assessed with reference to their discounted forecast future cash flows. This is inherently judgemental due to the subjectivity and uncertainty involved in selecting the appropriate key assumptions and preparing future discounted cash flows. A reversal of prior impairment charges of £24.6 million has been recognised. The effect of these matters is that, as part of our risk assessment, we determined that the carrying value of the parent company's investment in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 33) disclose the sensitivity estimated by the Company. We believe the level of risk related to the impairment of the Parent Company investment has reduced in light of the progress made in the roll-out of the vaccination programme in the UK and the reduced uncertainty regarding the impact of the COVID-19 pandemic.	Our procedures included: <ul style="list-style-type: none"> • Our sector experience: We corroborated our understanding of any changes in the business with the Group's forecasts and considered whether or not these had been appropriately captured in the impairment models; • Our valuation expertise: We used our experience to assist us in assessing appropriateness of the methodology and assumptions. In addition we used our discount rate tool to assist us in assessing the discount rate assumptions used by the Group; • Assessing assumptions: Assessing the key assumptions (including growth rates in turnover and margin expectations) as included in the directors' business plans and approved at the period-end date by considering historic performance and industry forecasts to set our own expectations; • Sensitivity analysis: We applied sensitivities to key assumptions to assess their impact on the recoverability of the assets; • Historical comparison: We evaluated the historical accuracy of the Group's forecasts by comparing previous budget to actual results; • Comparing valuations: We compared the results of discounted cash flows against the Group's market capitalisation, after adjusting for intercompany debt to assess the reasonableness of those cash flows; and • Assessing transparency: We also considered the adequacy of the Group's disclosure of the key risks and sensitivity around the outcome, and whether that disclosure reflected the risks inherent in the valuation of investments in subsidiaries. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.
		Our results The results of our testing were satisfactory and we found the impairment reversal recorded and the resulting carrying value of the investment in subsidiaries to be acceptable (2020: acceptable).

We continue to perform procedures over recoverability of Parent Company receivables due from subsidiaries. However, in light of the progress made in the roll-out of the vaccination programme in the UK and the reduced uncertainty regarding the impact of the COVID-19 pandemic, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.



3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £500k (2020: £331k) determined with reference to a benchmark of revenue of £181m (2020: £225m of revenue) of which it represents 0.28% (2020: 0.15%). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax.

The increase in materiality compared to prior year reflects our risk assessment and in particular that in light of the progress made in the roll-out of the vaccination programme in the UK, there is reduced overall uncertainty regarding the impact of the COVID-19 pandemic.

Materiality for the Parent Company financial statements as a whole was set at £400k (2020: £265k). This is lower than the materiality we would otherwise have determined by reference to a benchmark of company net assets, of which it represents 0.8%.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

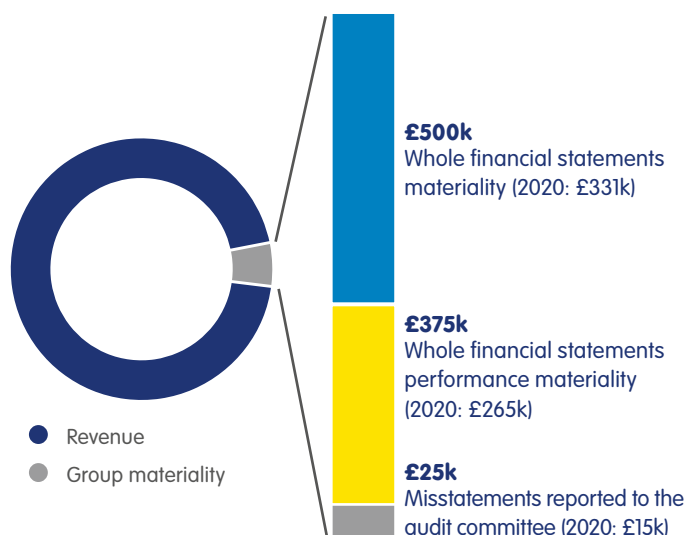
Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £375,00 (2020: £248,000) for the group and £300,000 (2020: £199,000) for the Parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £25k (2020: £15k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

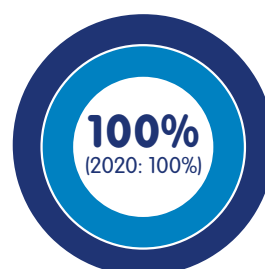
The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality and performance materiality levels set out above.

Benchmark - Revenue £180m (2020: £225m)

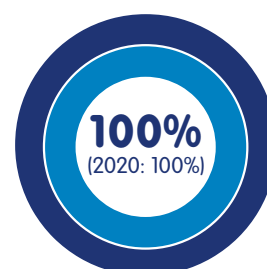
Group materiality £500k (2020: £331k)



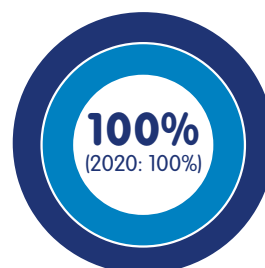
Group revenue



Group loss before tax



Group total assets



- Full scope for group audit purposes 2021
- Full scope for group audit purposes 2020



Independent auditor's report continued

To the Members of TheWorks.co.uk plc

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period; and
- the related statement under the Listing Rules set out on page 64 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud including the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board, audit committee and remuneration committee minutes.
- Considering remuneration incentive schemes and performance targets for directors and how these are impacted by separately disclosed items; and
- Using analytical procedures to identify any unusual or unexpected relationships

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we performed procedures to address the risk of management override of controls, in particular that management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements.

On this audit we do not believe there is a fraud risk related to revenue recognition due to the simple recognition criteria for the majority of revenue streams, which are recognised at the point of sale, and the limited opportunity for management to manipulate the revenue recognised.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included: unusual revenue pairings and unusual journals with a credit or debit to entry to cash.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, and employment law. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.



6. We have nothing to report on the other information in the Annual Report continued

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability statement page 28 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal risks and uncertainties disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability statement, set out on page 28 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the Annual Report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Report relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 64, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

Anthony Sykes

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London, E14 5GL

20 July 2021



Consolidated income statement

For the 53 week period ended 2 May 2021

	Note	53 weeks to 2 May 2021			52 weeks to 26 April 2020 (Restated – Note 4)		
		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	4	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)	7	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	9	(5,468)	–	(5,468)	(4,454)	–	(4,454)
(Loss)/profit before tax		(3,577)	776	(2,801)	2,433	(20,405)	(17,972)
Taxation	10	502	–	502	(529)	799	270
(Loss)/profit for the period		(3,075)	776	(2,299)	1,904	(19,606)	(17,702)
(Loss)/profit before tax and IFRS 16	5	(3,395)	707	(2,688)	3,338	(17,560)	(14,222)
Basic earnings per share (pence)	12	(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)



Consolidated statement of financial position

As at 2 May 2021

	Note	FY21 £000	FY20 £000
Non-current assets			
Intangible assets	13	2,463	3,194
Property, plant and equipment	14	18,325	21,061
Right-of-use assets	14, 15	111,741	116,763
Deferred tax assets	16	2,852	1,802
		135,381	142,820
Current assets			
Inventories	17	29,132	26,594
Trade and other receivables	18	6,913	8,130
Derivative financial asset	25	–	1,531
Current tax asset		704	687
Cash and cash equivalents	19	8,315	6,546
		45,064	43,488
Total assets		180,445	186,308
Current liabilities			
Bank overdraft	19, 20	–	3,605
Interest-bearing loans and borrowings	20	7,095	9,938
Lease liabilities	20	31,552	22,002
Trade and other payables	21	26,188	26,189
Provisions	22	718	979
Derivative financial liability	25	1,649	–
		67,202	62,713
Non-current liabilities			
Interest-bearing loans and borrowings	20	–	(11)
Lease liabilities	20	104,362	110,200
Derivative financial liability	25	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	24	625	625
Share premium	24	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

These financial statements were approved by the Board of Directors on 20 July 2021 and were signed on its behalf by:

Steve Alldridge
Chief Financial Officer

Company registered number: 11325534



Consolidated statement of changes in equity

	Attributable to equity holders of the Company						Total equity £000
	Share capital £000	Share premium £000	Merger reserve £000	Share-based payment reserve £000	Hedging reserve ¹ £000	Retained earnings £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 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 (Note 25)	–	–	–	–	332	–	332
Transactions with owners of the Company							
Share-based payment charges	–	–	–	120	–	–	120
Dividend (Note 11)	–	–	–	–	–	(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 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 (Note 25)	–	–	–	–	(33)	–	(33)
Transactions with owners of the Company							
Share-based payment charges	–	–	–	81	–	–	81
Dividend (Note 11)	–	–	–	–	–	–	–
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.



Consolidated cash flow statement

For the 53 week period ended 2 May 2021

	FY21 £000	FY20 (Restated - Note 15) £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 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 assets	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

(Forming part of the financial statements)

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 17 (Inventories).

(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 (IFRSs) 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; these are described in Note 1(g).

(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 on pages 22 to 27.

The Group has prepared cash flow forecasts, reflecting the approved budget for FY22, for a period of at least twelve 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 "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 scenario, 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; and
- the impact on the Group's cash flows, bank facility headroom and covenants.

These factors are described below.



Notes continued

(Forming part of the financial statements)

1. Accounting policies continued

(b) Basis of preparation continued

(i) Going concern continued

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) and 20 (Borrowings) of the financial statements. In addition, Note 25 (Financial risk management) describes the Group's objectives, its 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, 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 of the Strategic report, on pages 22 to 27, 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 shopping 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;



1. Accounting policies continued

(b) Basis of preparation continued

(i) Going concern continued

Base Case scenario continued

- 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; and
- 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 per cent. 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 per cent. reduction in Q4 of FY22, with a 0.5 per cent. 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; and
- 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.



Notes continued

(Forming part of the financial statements)

1. Accounting policies continued

(b) Basis of preparation continued

(iii) 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); and
- 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 or had any other material impact on the financial position or performance of the Group.

(c) Accounting convention

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities (including derivative instruments), which are held at fair value.

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to direct the activities that affect those returns through its power over the entity. Consolidation of a subsidiary begins from the date control commences and continues until control ceases. The Company reassesses whether or not it controls an investee if circumstances indicate that there are changes to the elements of control detailed above.

(e) Business combinations

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred less the fair value of identifiable assets acquired and liabilities assumed. Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. Costs related to the acquisition are expensed to the income statement as incurred.

(f) 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, in the following notes:

Description	Note	Page
Adjusting items	6	83
Hedge accounting	25	98

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:

Description	Note	Page
Impairment of property, plant and equipment and right-of-use assets	14	88
Inventory	17	94

2. Segmental reporting

IFRS 8 requires segment information to be presented on the same basis as used by the Chief Operating Decision Maker for assessing performance and allocating resources.

The Group has two revenue streams, in store and online, the results of which are aggregated into one reportable segment. This reflects the Group's management and reporting structure as viewed by the Board of Directors, which is considered to be the Group's Chief Operating Decision Maker. Aggregation is deemed appropriate due to both operating segments having similar economic characteristics, similar products on offer and a similar customer base.



3. Revenue

Accounting policy

Revenue represents receipts from the sale of goods to customers less deductions for actual and expected returns, discounts and vouchers redeemable by members of the Group's loyalty scheme, and is stated net of value added tax and other sales taxes. Revenue is recognised when performance obligations are satisfied and goods are delivered to the customer and the control of goods is transferred to the buyer.

Transactions that result in customers earning points under the Group's loyalty scheme are accounted for as multiple element revenue transactions and the fair value of the consideration received is allocated between the goods supplied and the points granted. The consideration allocated to the points is measured by reference to their fair value – the amount for which the points could theoretically be sold separately. The consideration allocated to the points is not recognised as revenue at the time of the initial sale transaction but is deferred and recognised as revenue when the points are redeemed and the Group's obligations have been fulfilled.

	FY21 £000	FY20 £000
Sale of goods		
UK	177,730	220,581
EU	2,950	4,461
Total revenues	180,680	225,042

Seasonality of operations

The Group's revenue is subject to seasonal fluctuations as a result of peaking during the approach to the Christmas period, from October to December. Therefore, the first half of the financial year, from April to October, typically produces lower revenue and profit results than the second half.

4. 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 per cent. 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; and
3. local business support grants.

Amounts received relating to the CJRS 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 £14,165k (FY20: £1,020k). 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 £1,020k reduction in cost of sales (from £194,667k to £193,647k) and a corresponding reduction in other operating income (from £4,677k to £3,657k). As a consequence, gross profit has increased from £30,375k to £31,395k. 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

5. 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.



Notes continued

(Forming part of the financial statements)

5. Alternative performance measures (APMs) continued

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 EBITDA 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 6 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 £000	FY20 (Restated - Note 15) £000
Non-IFRS 16 Adjusted EBITDA¹	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 EBITDA¹	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	–	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.



5. Alternative performance measures (APMs) continued

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)/profit 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)/profit	(182)	69	(113)
Loss)/profit 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 6 for a description of Adjusting items. These adjusted metrics are included within the Consolidated income statement and Consolidated statement of other comprehensive income, with further details of Adjusting items included in Note 6.

6. 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 13 for further detail.

4 Salary and other costs relate to payments to past Directors, (refer to the FY20 Directors' 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.



Notes continued

(Forming part of the financial statements)

7. Operating profit

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

	FY21 £000	FY20 (Restated - Note 15) £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 6)	(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 15 for further details of these balances.

Auditor's remuneration:

	FY21 £000	FY20 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	180	70
Amounts payable in respect of other services to the Company and its subsidiaries		
Audit of the accounts of subsidiaries	40	70
Audit related assurance services	1	1
Total services	221	141

Please refer to the Audit Committee report on pages 46 to 48 for details regarding the safeguarding of auditor objectivity and independence.

8. Staff numbers and costs

The average number of people employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	FY21	FY20
Store support centre colleagues	209	204
Store colleagues	3,414	3,498
Warehouse and distribution colleagues	135	147
	3,758	3,849

The corresponding aggregate payroll costs were as follows:

	FY21 £000	FY20 £000
Wages and salaries	46,479	50,449
Social security costs	2,867	3,169
Contributions to defined contribution pension schemes	643	782
	49,989	54,400
Agency labour costs	1,022	1,058
	51,011	55,458



9. Finance income and expense

Accounting policy

Finance expense comprises interest charges. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use are capitalised as part of the cost of that asset, and subsequently amortised to finance expenses over the appropriate life.

Finance income comprises interest income and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest is recognised in profit as it accrues, using the effective interest method.

Recognised in Consolidated statement of comprehensive income

	FY21 £000	FY20 £000
Finance income		
Bank interest receivable	18	12
Total finance income	18	12
Finance expense		
Bank interest payable	322	363
Other interest payable	295	62
Interest on lease liabilities	4,869	4,041
Total finance expense	5,486	4,466

10. Taxation

Accounting policy

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.



Notes continued

(Forming part of the financial statements)

10. Taxation continued

Recognised in Consolidated income statement

	FY21 £000	FY20 £000
Current tax expense/(credit)		
Current year	–	(173)
Adjustments for prior years	22	209
Current tax expense	22	36
Foreign tax expense		
Current year	–	–
Adjustments for prior years	–	–
Foreign tax expense	–	–
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	(423)	(78)
Reduction in tax rate	–	(206)
Adjustments for prior years	(101)	(22)
Deferred tax (credit)	(524)	(306)
Total tax (credit)	(502)	(270)

The UK corporation tax rate for FY21 and FY20 was 19.0 per cent. The deferred tax asset at 2 May 2021 has been calculated based on these rates. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

As the deferred tax assets and liabilities should be recognised based on the corporation tax rate applicable when they are anticipated to unwind, the assets and liabilities on UK operations have been largely recognised at a rate of 19 per cent. (FY20: 19 per cent.). Assets and liabilities arising on foreign operations have been recognised at the applicable overseas tax rates.

A reduction in the UK corporation tax rate from 19 per cent. to 17 per cent. (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19 per cent. would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The UK deferred tax liability as at 31 March 2021 was calculated at 19 per cent.

An increase in the UK corporation rate from 19 per cent. to 25 per cent. (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the future current tax charge for the Group and the Company accordingly and increase the deferred tax assets of the Group by £900,000 and the deferred tax asset of the Company by £108,000.

Reconciliation of effective tax rate

	FY21 £000	FY20 £000
(Loss) for the year	(2,801)	(17,972)
Tax using the UK corporation tax rate of 19% (FY20: 19%)	(532)	(3,415)
Non-deductible expenses	105	123
Goodwill impairment – non-qualifying	–	3,074
Effect of tax rates in foreign jurisdictions	4	(32)
Tax over-provided in prior periods	(79)	186
Change in tax rate	–	(206)
Total tax (credit)	(502)	(270)

The Group's total income tax credit in respect of the period was £502k (FY20: credit of £270k). The effective tax rate on the total loss 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 charges and reversals within Adjusting items being non-deductible for tax purposes (FY20: related to goodwill impairment within adjusting items being non-deductible for tax purposes).



11. Dividends

Accounting policy

At the balance sheet date, dividends are only recognised as a liability if they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

	Pence per share	FY21 £000	FY20 £000
Final dividend for the year ended 28 April 2019	2.4p	–	1,500
Interim dividend for the year ended 26 April 2020	1.2p	–	750
Total dividend paid to shareholders in the year		–	2,250

Dividend equivalents totalling £73,582 (FY20: £30,772) were accrued in the year in relation to share-based long-term incentive schemes.

The Board is not recommending a final dividend in respect of FY21 (FY20: £Nil).

12. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss for the period, attributable to ordinary shareholders, by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is based on the weighted average number of shares in issue for the period, Adjusted for the dilutive effect of potential ordinary shares. Potential ordinary shares represent shares that may be issued in connection with employee share incentive awards.

The Group has chosen to present an Adjusted earnings per share measure, with profit adjusted for Adjusting items (see Note 6 for further details) to reflect the Group's underlying profit for the year.

	FY21 Number	FY20 Number
Number of shares in issue	62,500,000	62,500,000
Number of dilutive share options ¹	–	–
Number of shares for diluted earnings per share	62,500,000	62,500,000

¹ As the Group has made a loss for the year, 623,400 potentially dilutive share options have not been treated as dilutive for the purpose of the earnings per share calculations.

	£000	£000
Loss for the financial period	(2,299)	(17,702)
Adjusting items	(776)	20,405
Taxation (credit) on Adjusting items	–	(799)
Total Adjusted (loss)/profit for Adjusted earnings per share	(3,075)	1,904
	pence	pence
Basic earnings per share	(3.7)	(28.3)
Diluted earnings per share	(3.7)	(28.3)
Adjusted basic earnings per share	(4.9)	3.0
Adjusted diluted earnings per share	(4.9)	3.0

13. 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.



Notes continued

(Forming part of the financial statements)

13. Intangible assets continued

Accounting policy continued

	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 £16.2m was impaired to £Nil in FY20, and no further impairment testing is necessary in relation to this.

14. 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 scrapping 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.



14. Property, plant and equipment continued

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 15.

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%	2.0%

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).

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);
- 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; and
- 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 £3.5m 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.



Notes continued

(Forming part of the financial statements)

14. Property, plant and equipment continued

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 per cent. 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 per cent. 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 £000	RoUA – plant and equipment £000	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Total £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 (Restated - Note 15) £000	RoUA – plant and equipment £000	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Total (Restated - Note 15) £000
Cost						
Balance at 29 April 2019	–	–	9,253	2,529	21,457	33,239
Adoption of IFRS 16 (Restated - Note 15)	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 (Restated - Note 15)	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 15)	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 15)	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



15. IFRS 16

Accounting policy

IFRS 16 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 twelve months or less; and
- (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.



Notes continued

(Forming part of the financial statements)

15. IFRS 16 continued

Lessee accounting under IFRS 16 continued

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; and
- 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
	135,914	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.

**15. IFRS 16 continued****Amounts recognised in the statement of profit and loss:**

	FY21 £000	FY20 (Restated) ¹ £000
Depreciation charge on right-of-use assets (RoUA)	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 twelve months 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	2,208

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 assets' 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 14 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 £000	FY20 (Restated - see above) £000
Land and buildings	22,334	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 £000	Concession Store Leases £000	Total £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



Notes continued

(Forming part of the financial statements)

16. Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets		Liabilities	
	FY21 £000	FY20 £000	FY21 £000	FY20 £000
Property, plant and equipment	732	685	–	–
Temporary timing differences	1,792	1,325	–	–
Financial assets/liabilities	328	(208)	–	–
Other	–	–	–	–
Tax assets	2,852	1,802	–	–

Movement in deferred tax during the year

	Fixed assets £000	Temporary timing differences £000	Financial assets/ liabilities £000	Other timing differences £000	Total £000
At 27 April 2020	685	1,325	(208)	–	1,802
Adjustment in respect of prior years	(165)	279	(14)	–	100
Deferred tax credit/(charge) to profit and loss	212	212	–	–	424
Deferred tax credit/(charge) in equity profit and loss	–	(24)	550	–	526
At 2 May 2021	732	1,792	328	–	2,852

17. 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 £000	FY20 £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 the prior year and, therefore, the provision required for unrecognised shrinkage materially increased, and its calculation has 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 per cent. of gross stock (FY20: 5.1 per cent.). 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.

**17. Inventories continued****Stock provisions continued****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.

18. Trade and other receivables

	FY21 £000	FY20 £000
Current		
Trade receivables	2,214	832
Other receivables	423	528
Prepayments	3,362	3,120
Accrued income	914	3,650
Trade and other receivables	6,913	8,130

Trade receivables are attributable to sales which are paid for by credit card and are classified as finance assets at amortised cost; they are all current. No credit is provided to customers. The value and nature of trade receivables is such that no material credit losses occur; therefore no loss allowance has been recorded at the period end (FY20: £Nil). The increase in trade and receivables is due to all stores being closed as at 26 April 2020, therefore as at the prior year end there were no store related credit card payments receivable.

Prepayments relate to prepaid property costs and other expenses. The increase in the balance from 2020 is attributable to an increase in rent prepayments due to COVID-19 rent free credit notes relating to stores excluded from the IFRS 16 assessment remaining outstanding at the period end.

The accrued income balance relates to the COVID-19 furlough scheme Government grants receivable as detailed in Note 4.

19. Cash and cash equivalents

	FY21 £000	FY20 £000
Cash and cash equivalents per balance sheet	8,315	6,546
Bank overdraft per balance sheet	–	(3,605)
Net cash and cash equivalents	8,315	2,941

The Group's cash and cash equivalents are denominated in the following currencies:

	FY21 £000	FY20 £000
Sterling	3,385	(3,605)
Euro	1,138	1,531
US dollar	3,792	5,015
Net cash and cash equivalents	8,315	2,941

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

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, 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. 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.



Notes continued

(Forming part of the financial statements)

20. 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. 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 cash flows arising from financing activities:

	FY21 £000	FY20 (Restated - Note 15) £000
Borrowings at start of year (excluding overdrafts) ¹	142,129	633
Additional lease liabilities recognised on adoption of IFRS 16 (Restated - Note 15)	–	117,836
Restated borrowings at start of year (excluding overdrafts)¹	142,129	118,469
Changes from financing cash flows		
Payment of lease liabilities (capital) (Restated - Note 15)	(14,327)	(22,351)
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 cash flows (Restated - Note 15)	(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



21. Trade and other payables

	FY21 £000	FY20 £000
Current		
Trade payables	15,309	18,020
Other tax and social security	194	700
Accrued expenses	10,685	7,469
Trade and other payables	26,188	26,189

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Accrued expenses comprise various accrued property costs, payroll costs and other expenses, including £677,000 (2020: £634,000) of deferred income in relation to the customer loyalty scheme. The increase in the balance from FY20 is due to the payroll and property cost accruals as at 26 April 2020 being significantly lower than usual due to the prior year end falling within a lockdown period.

The Group has net US dollar denominated trade and other payables of £2.9m (FY20: £1.5m).

22. Provisions

Accounting policy

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are the best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

	Dilapidations £000	HMRC duty provision £000	Total £000
Balance as at 26 April 2020	192	787	979
Provisions made during the year	718	–	718
Provisions used during the year	(192)	(724)	(916)
Provisions released during the year	–	(63)	(63)
Balance as at 2 May 2021	718	–	718
Non-current	–	–	–
Current	718	–	718

Dilapidation provision

In accordance with IAS 37 Provisions, a reliable estimate has been made in respect of estimated dilapidation costs associated with expected lease terminations. These costs are expected to be paid during the course of the year and therefore are not discounted.

HMRC duty provision

A review of the historic import duty rates paid by the Company was completed during the period and HMRC has closed the case. The provision included in the FY20 balance sheet is therefore no longer needed.

23. Defined contribution pension plans

Accounting policy

A defined contribution pension plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

The Group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £643k (FY20: £782k).

At the end of the year contributions of £65k (FY20: £68k) were outstanding.



Notes continued

(Forming part of the financial statements)

24. Share capital and share premium

Accounting policy

The following describes the nature and purpose of each reserve within equity:

- **Share premium account:** Proceeds received in excess of the nominal value of shares issued, net of any transaction costs.
- **Hedging reserve:** Cumulative gains and losses on hedging instruments deemed effective in cash flow hedges.
- **Merger reserve:** Created in 2018 on the formation of TheWorks.co.uk plc, it represents the difference between the cost of the investment in The Works Investment Limited (and its subsidiaries, The Works Stores Limited and The Works Online Limited) of £51,499,891 and the nominal value of the ordinary shares issued in exchange of £109.
- **Share-based payment reserve:** Represents the cumulative charges to income under IFRS 2 Share-based Payment on all share options and schemes granted, net of share option exercises.
- **Retained earnings:** All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Ordinary shares are classified as equity.

	FY21 Number	FY20 Number
Share capital		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	62,500	62,500
Issued in the period	–	–
At the end of the period	62,500	62,500
	FY21 £000	FY20 £000
Share capital		
At the start of the period	625	625
Issued in the period	–	–
At the end of the period	625	625
Share premium		
At the start of the period	28,322	28,322
Issued in the period	–	–
At the end of the period	28,322	28,322

25. Financial instruments

Accounting policy

Non-derivative financial assets

Non-derivative financial assets comprise trade and other receivables and cash and cash equivalents. The Group classifies all its non-derivative financial assets as financial assets at amortised cost. Financial assets at amortised cost are initially measured at fair value plus directly attributable transaction costs, except for trade and other receivables without a significant financing component that are initially measured at transaction price. Subsequent to initial recognition, non-derivative financial assets are carried at amortised cost using the effective interest method, subject to impairment.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is "credit impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The Group measures loss allowances at an amount equal to lifetime expected credit loss.

Cash and cash equivalents comprise cash in hand, at bank and on short-term deposit for less than three months. Bank overdrafts, within borrowings, that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the Cash flow statement.

Non-derivative financial liabilities

Non-derivative financial liabilities comprise bank borrowings and trade and other payables. Non-derivative financial liabilities are initially recognised at fair value, less any directly attributable transaction costs, and subsequently stated at amortised cost using the effective interest method.

Derivative financial instruments

Derivative financial instruments are mandatorily categorised as fair value through profit or loss (FVTPL) except to the extent they are part of a designated hedging relationship and classified as cash flow hedging instruments. The Group utilises foreign currency derivative contracts to manage the foreign exchange risk on future US dollar denominated purchases.

Gains and losses in respect of foreign exchange derivative financial instruments that are not part of an effective hedging relationship are recognised within cost of sales and net finance expense.



25. Financial instruments continued

Accounting policy continued

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income (OCI) and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The Group designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships and applies a hedge ratio of 1:1. The change in fair value of the forward element of forward exchange contracts ("forward points") is separately accounted for as a cost of hedging and recognised in the hedging reserve separately as costs of hedging.

When foreign exchange hedged forecast transactions subsequently result in the recognition of inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the inventory.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until it is included in the cost of inventory on its initial recognition.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Fair value estimation

The techniques applied in determining the fair values of financial assets and liabilities are disclosed below.

Foreign currency

The consolidated financial statements are presented in pounds sterling, which is the functional currency of the Company.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. The majority of currency transactions that are not in the functional currency of the trading entity relate to inventory purchases. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement within cost of sales, except when deferred in other comprehensive income as qualifying cash flow hedges. Foreign currency gains and losses are reported on a net basis.

Critical accounting judgement

The Group is exposed to foreign currency risk, most significantly to the US dollar as a result of sourcing certain products which are paid for predominantly in US dollars. The Group hedges these exposures using forward foreign exchange contracts and hedge accounting is applied when the requirements of IFRS 9 are met, which include that a forecast transaction must be "highly-probable". The Group has applied judgement in assessing whether the forecast purchases remain "highly-probable".

The Group's policy is that approximately 50 per cent. of the forecast purchase requirements are initially hedged, approximately twelve months prior, with incremental hedges taken out over time, as the buying period approaches and therefore as certainty increases over the forecast purchases. As a result of this progressive strategy, reducing the supply pipeline of inventory, should this occur, does not immediately lead to over-hedging and the disqualification of "highly probable". If the forecast transactions were no longer expected to occur, any accumulated gain or loss on the hedging instruments would be immediately reclassified to profit or loss.

Financial risk management

The Board has overall responsibility for managing risks and uncertainties and these are reviewed on an ongoing basis. The principal financial risks faced by the Group include market risk, currency risk, cash flow interest rate risk, credit risk and liquidity risk.

In order to manage the Group's exposure to these risks, in particular the Group's exposure to currency risk, the Group enters into forward foreign currency contracts. No transactions in derivatives are undertaken for speculative purposes.

Further details of the Group's approach to managing risk are included in the "Principal Risks and Uncertainties" section of the Strategic report on pages 22 to 27 and in the Corporate governance report on pages 43 to 45.

(a) Market risk

The Group's activities expose it to two types of market risk, being currency risk, and cash flow interest rate risk. The Group's policies for managing currency risk and interest rate risk are set out below.

(i) Currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated. A significant proportion of the Group's retail products are procured from overseas suppliers in transactions denominated in US dollars.

The Group uses foreign currency derivative contracts and US dollar denominated cash balances to manage the foreign exchange risk on US dollar denominated inventory purchases.

As described above, the Group takes a prudent, but flexible, approach to hedging the risk of exchange rate fluctuations. At 2 May 2021, the Group held forward contracts with a nominal value of \$43.23m (FY20: \$35.3m), all with maturity dates of less than two years. These contracts have an average forward rate of \$1.3144 (FY20: \$1.3049).



Notes continued

(Forming part of the financial statements)

25. Financial instruments continued

Financial risk management continued

(a) Market risk continued

(i) Currency risk continued

Exposure to currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	FY21 £000	FY20 £000	FY21 £000	FY20 £000
US dollar	2,878	1,482	3,793	5,015
Euro	767	475	1,415	1,885

Currency sensitivity analysis

The Group is exposed to the US dollar and, to a significantly lesser extent, the euro.

The following table details the Group's sensitivity to a 10 per cent. increase or decrease in sterling against the relevant foreign currencies. 10 per cent. represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10 per cent. change in foreign currency rates. A positive number below indicates an increase in profit and other equity where sterling strengthens 10 per cent. against the relevant currency. For a 10 per cent. weakening of sterling against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be positive.

	USD impact		Euro impact	
	FY21 £000	FY20 £000	FY21 £000	FY20 £000
Loss for the period	(83)	(321)	(59)	(128)

This is mainly attributable to the exposure outstanding on US dollar and euro cash, trade payables and other accruals in the Group at the reporting date.

The sensitivity analysis above represents the inherent foreign exchange risk as at the year-end, but is not reflective of the exposure, and therefore the profit impact, to foreign currency exchange movements during the year.

(ii) Interest rate risk

The Group is also exposed to the effects of fluctuations in the interest rate on its banking facility. The sensitivity analysis below has been determined based on an increase in the interest rate of 1.0 per cent. on the average cash balances throughout the year.

	FY21 £000	FY20 £000
Variable rate instruments (100 bp increase)	56	33
Variable rate instruments (100 bp decrease)	(56)	(33)

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group does not offer any credit to customers; therefore, the credit risk with respect to exposure to customers is low.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of the financial assets recorded in the financial statements represents the Group's and the Company's exposure to credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its financial assets and liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows, excluding interest, based on the earliest date on which the Group can be required to pay.



25. Financial instruments continued

Contractual maturity of financial liabilities

	Within 1 year £000	1-5 years £000	5+ years £000	Total £000
2 May 2021				
Interest bearing	7,500	–	–	7,500
Non-interest bearing	26,035	–	–	26,035
Finance lease liability (undiscounted cash flows)	35,978	86,601	30,158	152,737
Derivative				
Forward currency contracts	1,649	53	–	1,702
	71,162	86,654	30,158	187,974
26 April 2020				
Interest bearing	13,605	–	–	13,605
Non-interest bearing	25,844	–	–	25,844
Finance lease liability (undiscounted cash flows – restated ¹)	26,542	87,674	36,611	150,827
Derivative				
Forward currency contracts	–	–	–	–
	65,991	87,674	36,611	190,274

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.

Hedge accounting

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a qualitative and forward-looking approach to assessing hedge effectiveness.

The Group determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and, has been, effective in offsetting cash flows of the hedged item using the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of counterparties and the Group's own credit risk on the fair value of the forward foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- changes in the timing of the hedged transactions.

Fair value measurements

Financial instruments carried at fair value are measured by reference to the following fair value hierarchy, based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments are carried at fair value under a Level 2 valuation method. All other financial instruments carried at fair value are measured using the Level 1 valuation method.

There were no transfers between the levels during the current or prior year.

Derivative financial instruments

The fair value of derivative financial instruments at the Balance sheet date is as follows:

	FY21 £000	FY20 £000
Net derivative financial instruments		
Foreign exchange contracts	(1,702)	1,531



Notes continued

(Forming part of the financial statements)

25. Financial instruments continued

Classification of financial instruments

The table below shows the classification of financial assets and liabilities as at 2 May 2021.

The fair value of financial instruments has been assessed as approximating to their carrying value.

	Mandatorily at FVTPL £000	Cash flow hedging instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000
As at 2 May 2021				
Financial assets measured at fair value				
Derivative financial instruments	-	-	-	-
Financial assets not measured at fair value				
Trade and other receivables	-	-	6,913	-
Cash and cash equivalents	-	-	8,315	-
Financial liabilities measured at fair value				
Derivative financial instruments	-	(1,702)	-	-
Financial liabilities not measured at fair value				
Bank overdraft	-	-	-	-
Unsecured bank loans	-	-	-	(7,500)
Lease liabilities	-	-	-	(135,914)
Trade and other payables	-	-	-	(26,187)
As at 2 May 2021	-	(1,702)	15,228	(169,601)
	Mandatorily at FVTPL £000	Cash flow hedging instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000
As at 26 April 2020				
Financial assets measured at fair value				
Derivative financial instruments	-	1,531	-	-
Financial assets not measured at fair value				
Trade and other receivables	-	-	8,130	-
Cash and cash equivalents	-	-	6,546	-
Financial liabilities measured at fair value				
Derivative financial instruments	-	-	-	-
Financial liabilities not measured at fair value				
Bank overdraft	-	-	-	(3,605)
Unsecured bank loans	-	-	-	(10,000)
Lease liabilities	-	-	-	(132,202)
Trade and other payables	-	-	-	(26,189)
As at 26 April 2020	-	1,531	14,676	(171,996)



26. Equity-settled share-based payment arrangements

Accounting policy

The Group operates an equity-settled share-based compensation plan.

The cost of the awards to employees is expensed to the Income statement, together with a corresponding adjustment to equity, on a straight-line basis over the vesting period of the award. The cost of awards to employees of subsidiary undertakings is recognised as an increase in the investment in the subsidiary. The total Income statement charge is based on the Company's estimate of the number of share awards that will eventually vest in accordance with the vesting conditions. The awards granted during FY21 include market-based vesting conditions. At each balance sheet date, the Company revises its estimate of the number of awards that are expected to vest. Any revision to estimates is recognised in the income statement, with a corresponding adjustment to equity.

During FY21, the Group had two (FY20: two) share-based payment schemes, which are described below.

TheWorks.co.uk Long Term Incentive Plan (LTIP)

Further details of the Group's LTIP arrangements are included in the Directors' Remuneration Report. The LTIP rules provide for the grant of performance related and restricted awards.

The LTIP awards are subject to a three-year vesting period and will usually only vest following the satisfaction of performance conditions. Vested shares will not be released until the end of an additional holding period of two years beginning on the vesting date. Performance measures under the LTIP are based on financial measures. For FY21 the vesting conditions require three years' service from the grant date and the achievement of an EPS target, and a share price target (FY20 awards: three years' service from grant date and an EPS target).

Restricted stock awards have previously been granted to certain employees, with a two-year vesting period. Restricted share awards are not subject to performance conditions.

Save As You Earn Scheme (SAYE)

A Save As You Earn Scheme is established which is a UK tax-qualified scheme under which eligible employees (including Directors) may save up to a maximum monthly limit of £250 (as determined by the Remuneration Committee) over a period of three years. Participants are granted an option to acquire shares at up to a 20 per cent. discount to the price as at the date of grant. The number of shares under option is that which can be acquired at that price using savings made.

	LTIP	SAYE
Number of share options		
Outstanding at 27 April 2020	1,190,540	1,502,996
Granted ¹	847,458	–
Forfeited	(66,885)	(126,310)
Lapsed	(359,043)	–
Restricted stock awards granted	857,143	–
Outstanding at 2 May 2021	2,463,213	1,376,686

¹ Includes no share options under TheWorks.co.uk 2018 Long Term Incentive (CSOP Options) Plan (FY20: 185,185).

	LTIP	SAYE
Weighted average exercise price (£)		
Outstanding at 27 April 2020	1.15	0.58
Granted	0.35	–
Forfeited	1.71	0.58
Lapsed	1.71	–
Restricted stock awards granted	0.23	–
Outstanding at 2 May 2021	0.46	0.58
Weighted average remaining contractual life (years)	4.17	1.30

The exercise prices of outstanding share options as at 2 May 2021 range from £0.58 to £1.71.

Expense recognised in the Income statement

	FY21 £000	FY20 £000
LTIP – share-based payment expense	25	14
SAYE – share-based payment expense	56	106
Total IFRS 2 charges	81	120
Taxation relating to IFRS 2 charges	–	–
	81	120



Notes continued

(Forming part of the financial statements)

27. Capital commitments

Capital commitments

At 2 May 2021 the Group had capital commitments of £46,219 (FY20: £94,000).

28. 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 Directors' remuneration report.

29. Subsidiary undertakings

The results of all subsidiary undertakings are included in the consolidated financial statements. The principal place of business and the registered office addresses for the subsidiaries are the same as for the Company.

Company	Active/ dormant	Direct/ indirect control	Registered number	Class of shares held	Ownership
The Works Investments Limited	Active	Direct	09073458	Ordinary	100%
The Works Stores Limited	Active	Indirect	06557400	Ordinary	100%
The Works Online Limited	Dormant	Indirect	08040244	Ordinary	100%



Company statement of financial position

As at 2 May 2021

	Note	FY21 £000	FY20 £000
Fixed assets			
Investment	33	57,279	19,000
Deferred tax asset	34	–	40
		57,279	19,040
Current assets			
Deferred tax asset	34	341	–
Trade and other receivables	35	10	21
Loan receivable (due for repayment after twelve months)	36	13,847	28,500
		14,198	28,521
Total assets		71,477	47,561
Current liabilities			
Trade and other payables	37	455	5,563
Total liabilities		455	5,563
Net assets		71,022	41,998
Share capital	38	625	625
Share premium	38	28,322	28,322
Share-based payment reserve		1,546	1,489
Retained earnings		40,529	11,562
Total equity		71,022	41,998

These financial statements were approved by the Board of Directors on 20 July 2021 and were signed on its behalf by:

Steve Alldridge
Chief Financial Officer

Company registered number: 11325534



Company statement of changes in equity

	Share capital £000	Share premium £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Balance as at 28 April 2019	625	28,322	1,358	46,987	77,292
Total comprehensive income for the period					
Loss for the period	–	–	–	(33,175)	(33,175)
Other comprehensive income	–	–	11	–	11
Total comprehensive income for the period	–	–	11	(33,175)	(33,164)
Transactions with owners of the Company					
Share-based payment charge	–	–	120	–	120
Dividend	–	–	–	(2,250)	(2,250)
Transactions with owners of the Company	–	–	120	(2,250)	(2,130)
Balance as at 26 April 2020	625	28,322	1,489	11,562	41,998
Total comprehensive income for the period					
Profit for the period	–	–	–	28,967	28,967
Other comprehensive income	–	–	(24)	–	(24)
Total comprehensive income for the period	–	–	(24)	28,967	28,943
Transactions with owners of the Company					
Share-based payment charge	–	–	81	–	81
Transactions with owners of the Company	–	–	81	–	81
Balance as at 2 May 2021	625	28,322	1,546	40,529	71,022



Notes to the Company financial statements

30. Accounting policies

(a) Basis of preparation

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirement of the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The financial statements have been prepared under the historical cost convention.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least twelve months from the date of issue of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis. Refer to Note 1(b)(i) for further information regarding the basis of preparation.

Principal accounting policies

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements.

EU endorsed International Financial Reporting Standards effective in the year

- 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)

(b) Income statement

The Company made a profit after tax of £29.0m for the Period relating to the reversal of Parent Company investment impairment and, the impact of intercompany loan waivers (FY20: loss of £33.2m). As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of the financial statements.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes;
- comparative period reconciliations for share capital;
- transactions with wholly owned subsidiaries;
- capital management;
- the effects of new but not yet effective IFRS; and
- the compensation of key management personnel.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 share-based payments in respect of Group-settled share-based payments.

(c) Key sources of estimation uncertainty

The preparation of financial statements requires the Company 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 Company accounting policies. Where a significant risk of materially different outcomes exists due to the requirement to make assumptions in arriving at a figure, 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.

The estimates which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next twelve months are discussed below.

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 note:

Description	Note	Page
Impairment of investments in subsidiaries	33	108

31. Employee costs

The Company has no employees other than the Board of Directors. Full details of Directors' remuneration are set out in the Directors' Remuneration Report.



Notes to the Company financial statements continued

32. Dividends

	Pence per share	FY21 £000	FY20 £000
Final dividend for the year ended 28 April 2019	2.4p	–	1,500
Interim dividend for the year ended 26 April 2020	1.2p	–	750
Total dividend paid to shareholders in the year		–	2,250

Dividend equivalents totalling £73,582 (FY20: £30,772) were accrued in the year in relation to share-based long-term incentive schemes.

The Board is not recommending a final dividend in respect of the financial year ended 2 May 2021 (26 April 2020: £Nil). Furthermore, no interim dividends were paid during the financial year.

33. Investments in subsidiaries

Key source of estimation uncertainty

The carrying value of the investment in subsidiary undertakings is reviewed for impairment on an annual basis. The recoverable amount is determined based on value in use. The value in use method requires the Group to determine appropriate assumptions (which are key sources of estimation uncertainty) in relation to the growth rates of sales and gross margins, operating costs, future capital maintenance expenditure, long-term growth rates and the post-tax discount rate used to discount the assumed cash flows to present value.

Estimation uncertainty arises due to changing economic and market factors, particularly in light of the ongoing COVID-19 pandemic. The Base Case cash flow projections reflect the expected future impact of COVID-19 as detailed within Note 1(b)(i) to the consolidated financial statements.

	FY21 £000
At 26 April 2020	19,000
Additions	14,739
Impairment (charge)/reversal	23,540
At 2 May 2021	57,279

Investments in subsidiaries represent the Company's investment in its subsidiary, The Works Investments Limited.

Impairment of investments in subsidiaries

The Company evaluates its investments in subsidiaries annually for any indicators of impairment. The Company considers the relationship between its market capitalisation and the carrying value of its investments, among other factors, when reviewing for indicators of impairment. As at 2 May 2021, the market capitalisation of the Group was greater than the carrying value of its investment in The Works Investments Limited, indicating, prima facie, that further impairment is not required.

As described above, key assumptions for the value in use calculation include those regarding the discount rate, long-term growth rates, and expected trading performance (sales, gross margin and operating costs). In FY20 the Company recognised an impairment charge of £32.7m in respect of its investment in The Works Investments Limited.

The recoverable amount of the investment in The Works Investments Limited has been re-evaluated based on the Group's latest forecast post-tax cash flows included in its Base Case plan (see Note 1(b)(i)) covering the Projection Period), which have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include estimates of ongoing capital expenditure required to maintain the store network, but exclude any significant growth capital initiatives. The Base Case plan reflects the Board's best estimate of the expected future impact arising from the continuing COVID-19 pandemic.

Cash flows beyond the Projection Period are extrapolated using an estimated average long-term growth rate of 0.0 per cent.

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to the Group. The post-tax discount rate is derived from the Group's post-tax weighted average cost of capital (WACC) which has been calculated using the capital asset pricing model, the inputs of which include a country risk free rate, equity risk premium, Group size premium, forecasting risk premium and risk adjustment (beta). The rate used to discount the forecast cash flows is 16.78 per cent. (FY20: 16.29 per cent.).

As a result of this analysis, an impairment reversal has been recognised during FY21.

Sensitivity analysis

As disclosed in the accounting policies note, the cash flows used within the impairment model, the long-term growth rate and the discount rate are sources of estimation uncertainty and changes in these assumptions could lead to further impairment.

Management has performed sensitivity analysis on the assumptions in the impairment model using reasonably possible changes in these key assumptions:

- a 20 basis point reduction in the long term growth rate would result in a reduction of the reversal of £577k;
- a 5% reduction in cash flows from the Base Case plan would result in a reduction of the reversal of £2,832k; and
- a 20 basis point increase in the discount rate would result in a reduction of the reversal of £819k.

In the event that all four were to occur simultaneously, a reduction in the impairment reversal of £4,142k would be required.



34. Deferred tax asset

Accounting policy

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

	FY21 £000	FY20 £000
Deferred tax asset	341	40
	341	40

Deferred tax assets of £341k (FY20: £40k) relate to temporary differences arising from trading, of which £24k (FY20: £11k) has been credited (FY20: charged) directly to equity.

35. Trade receivables

	FY21 £000	FY20 £000
Prepayments and accrued income	10	21
	10	21

36. Loans receivable

Accounting policy

Loans to subsidiaries are initially recorded at fair value. After initial recognition, they are measured at amortised cost, less any impairment losses. The loans are non-interest bearing and repayable on demand. The provision for impairment of loans receivable is based on lifetime expected credit losses. Lifetime expected credit losses are reassessed at each reporting date and any movement in the provision is recognised in the Company income statement.

	£000
As at 28 April 2019	28,500
Loans issued	–
Loans repaid	–
As at 26 April 2020	28,500
Loans waived	(14,653)
As at 2 May 2021	13,847

The loan balance of £13,847,000 (FY20: £28,500,000) relates to a non-interest bearing intercompany loan repayable on demand by subsidiary undertaking The Works Investments Limited. The Company does not intend to demand repayment of the loan within the next twelve months. An amount of £14,653,000 was waived during the period as part of a rationalisation of various intercompany balances. The ability of subsidiary undertakings to repay outstanding balances to the Company is assessed at each reporting date and counterparty credit risk is reviewed on a regular basis using the IFRS 9 expected credit loss impairment model. If a significant increase in the credit risk occurs, credit losses are recorded in the income statement. As at 2 May 2021 and 26 April 2020 no impairment of the receivable was recorded.

37. Trade payables

	FY21 £000	FY20 £000
Non-trade payables and accrued expenses	185	97
Accruals	246	178
Amounts owed to Group undertakings	24	5,288
	455	5,563

Amounts owed to Group undertakings relating to trade payables are non-interest bearing and repayable on demand.



Notes to the Company financial statements continued

38. Share capital and share premium

Accounting policy

The following describes the nature and purpose of each reserve within equity:

- **Share premium account:** Proceeds received in excess of the nominal value of shares issued, net of any transaction costs.
- **Share-based payment reserve:** Represents the cumulative charges to income under IFRS 2 Share-based Payment on all share options and schemes granted, net of share option exercises.
- **Retained earnings:** All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

	FY21 Number	FY20 Number
Share capital		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	62,500	62,500
Issued in the period	–	–
At the end of the period	62,500	62,500
	FY21 £000	FY20 £000
Share capital		
At the start of the period	625	625
Issued in the period	–	–
At the end of the period	625	625
Share premium		
At the start of the period	28,322	28,322
Issued in the period	–	–
At the end of the period	28,322	28,322

39. Equity-settled share-based payment arrangements

Accounting policy

The Group operates an equity-settled share-based compensation plan.

The cost of the awards to employees is expensed to the Income statement, together with a corresponding adjustment to equity, on a straight-line basis over the vesting period of the award. The cost of awards to employees of subsidiary undertakings is recognised as an increase in the investment in the subsidiary. The total Income statement charge is based on the Company's estimate of the number of share awards that will eventually vest in accordance with the vesting conditions. The awards do not include market-based vesting conditions. At each balance sheet date, the Company revises its estimate of the number of awards that are expected to vest. Any revision to estimates is recognised in the income statement, with a corresponding adjustment to equity.

During the period, the Company had two (FY20: two) share-based payment schemes, which are described below.

TheWorks.co.uk Long Term Incentive Plan (LTIP)

Further details of the Group's LTIP arrangements are included in the Directors' Remuneration Report. The LTIP rules provide for the grant of performance related and restricted awards.

LTIP awards are subject to a three-year vesting period and will usually only vest following the satisfaction of performance conditions, but will not be released until the end of a holding period of two years beginning on the vesting date. Performance measures under the LTIP are based on financial measures.

Restricted stock awards have previously been granted to certain employees, with a two-year vesting period. Restricted share awards are not subject to performance conditions.

Save As You Earn Scheme (SAYE)

A Save As You Earn Scheme is established which is a UK tax-qualified scheme under which eligible employees (including Directors) may save up to a maximum monthly limit of £250 (as determined by the Remuneration Committee) over a period of three years. Participants are granted an option to acquire shares at up to a 20 per cent. discount to the price as at the date of grant. The number of shares under option is that which can be acquired at that price using savings made.

For more information, refer to Note 26.

**39. Equity-settled share-based payment arrangements** continued**Save As You Earn Scheme (SAYE)** continued

Expense recognised in the Company income statement

	FY21 £000	FY20 £000
Share-based payment expenses		
Credit recognised in the Company income statement	(5)	(29)
Expense recognised in the subsidiary income statement	86	149
Total IFRS 2 charges recognised in the Group income statement	81	120

40. Related party transactions

	FY21 £000	FY20 £000
Loans receivable from subsidiary undertaking The Works Investments Limited	13,847	28,500

The Works Investments Limited is a 100 per cent. owned subsidiary, with a principal place of business and registered office address the same as that of the Company. The loan is non-interest bearing and repayable on demand.



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TheWorks.co.uk plc's commitment to environmental issues is reflected in this Annual Report, which has been printed on Galerie Satin, an FSC® certified material.

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