The Manx Co-operative Society Limited

Annual Report and Financial Statements

Registered number IM 25

2 January 2021

Corporate Information

Directors

The Directors who held office during the period and to date are as follows:

M Laine-Toner
J McNeill
W Shimmin
W Tomlinson

Officers

C Sellers (Secretary)
A Corrie (Operations Manager)

Auditors

Ernst & Young LLC
Rose House
51 - 59 Circular Road
Douglas
Isle of Man
IM1 1AZ

Registered Office

4 Myrtle Street
Douglas
IM1 1ED

Contents

Directors' Report

The Directors are pleased to present their annual report and financial statements for the 52 week period ended 2 January 2021.

Principal activities

The principal activity of The Manx Co-operative Society Limited (the 'Society') is the operation of convenience stores.

Business review

The Directors are pleased to report a strong performance, with operating profits for the period of £1,554,000 (period ended 4 January 2020: £2,056,000).

Relatively stable sales has been achieved despite customer numbers down by 18.8% (2019: 1.3% up) and with average basket spend up 24.1% (2019: 1.7% up). Overall profitability has increased with operating profit of 4.2% of sales (2019: 5.6%).

The real story of 2020 was the COVID pandemic and the real heroes of the story were the store colleagues. The challenge faced by the pandemic was unprecedented but thanks to the resilience of colleagues the Manx Coop rose to meet the challenge. The biggest impact of this was felt in the middle third of the year as the lockdown and the lack of tourism both depressed sales. However, a strong first and last quarter both without lockdown restrictions mitigated this and led to an overall sales increase for the year. The decrease in customer numbers and increase in basket spend was attributable to customers doing bigger shops less often while social distancing was in place. Generally costs were controlled well, albeit payroll was high due to COVID related absence payments for sickness, isolation and shielding as well as door controls for stores during lockdown and there was also an increase in operating costs attributable to safety measures such as screens, comms materials, enhanced cleaning schedules and PPE. Overall 2020 was a challenging year but the Manx Coop Colleagues rose to that challenge and served their community as always.

Dividend

The Directors do not recommend the payment of a dividend (52 week period ended 4 January 2020: £nil). However, the membership structure is set up in such a way that, members of the Society who are also members of the Society's parent organisation, Co-operative Group Limited (the 'Parent Organisation'), are eligible for any recommended dividends paid by the Parent Organisation, based on their trade with the Society on the Isle of Man. The structure is the result of a long standing decision agreed by the Board of the Society in relation to the membership structure and payment of dividends.

Directors

The Directors who held office during the period and to date are as follows:

M Laine-Toner (Chair)
J McNeill
W Shimmin
W Tomlinson

Officers

C Sellers (Secretary)
A Corrie (Operations Manager)

Employees

The Board would like to pay thanks to its employees who have contributed to the success of the Society during the period.

By order of the Board

C Sellers
Secretary
Date 26 July 2021

Registered Office:
4 Myrtle Street
Douglas
Isle of Man
IM1 1ED

Statement of Directors' Responsibilities in respect of the Financial Statements

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Industrial and Provident Society Law requires the Directors to prepare financial statements for each financial period, which meet requirements of Isle of Man Law. In addition, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 "Reduced Disclosure Framework".

The Society financial statements are required by law to give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for the financial period.

In preparing the Society financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that its financial statements comply with the Industrial and Provident Society Acts 1892 to 1986. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of The Manx Co-operative Society Limited

Qualified Opinion

We have audited the financial statements of The Manx Co-operative Society Limited for the period ended 2 January 2021 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 15, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Accounting Standards).

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the Society's affairs as at 2 January 2021 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been prepared in accordance with the requirements of the Industrial and Building Societies Act 1892 to 1986.

Basis for qualified opinion

Given the impact of Covid – 19 we were unable to observe the counting of physical inventories during the period and were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 02 January 2021, which are included in the balance sheet at £780k.

Consequently we were unable to determine whether any adjustment to the inventory balance as at 02 January 2021 was necessary, or whether there was any consequential effect on cost of sales for the period ended 02 January 2021.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Isle of Man, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period to 30 September 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Society's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

As described in the basis for qualified opinion section of our report, we were unable to satisfy ourselves concerning the inventory quantities of £780k held at 02 January 2021. We have concluded that where the other information refers to the inventory balance or related balances such as cost of sales, it may be materially misstated for the same reason.

Responsibilities of the Board

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditor's Report to the Members of The Manx Co-operative Society Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Society and determined that the most significant are the direct laws and regulations relating to elements of society law and tax legislation, and the financial reporting framework i.e. the Industrial and Building Societies Act 1892 to 1986 and FRS 101.
• We understood how The Manx Co-operative Society Limited is complying with those frameworks by making enquiries with management, internal audit, and those responsible for legal and compliance matters.
• We assessed the susceptibility of the Society's financial statements to material misstatement, including how fraud might occur by considering areas of significant judgement including complex transactions, performance targets, economic or external pressures and the impact that these have on the control environment.
• Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries with those charged with governance and senior management for their awareness of non-compliance with laws and regulations, inquiring about policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Society's methods of enforcing and monitoring compliance with such policies.

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

Use of our report

This report is made solely to the Society's members, as a body. Our audit work has been undertaken so that we might state to the Society'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 Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLC

Ernst & Young LLC
Chartered Accountants
Isle of Man

28 July 2021

Income Statement
for the 52 week period ended 2 January 2021

	Notes	For period ended 2 January 2021 £'000	For period ended 4 January 2020 £'000
Revenue		**36,653**	36,480
Cost of sales		**(24,177)**	(23,779)
Gross profit		**12,476**	12,701
Administrative expenses		**(7,313)**	(6,884)
Distribution costs		**(3,609)**	(3,664)
Other operating expenses		**-**	(97)
Operating profit		**1,554**	2,056
Finance expense		**(113)**	(77)
Profit before taxation		**1,441**	1,979
Taxation	6	**(295)**	(242)
Profit for the period	3	**1,146**	1,737

Statement of Comprehensive Income
for the 52 week period ended 2 January 2021

The Society has no recognised income or expenses in the current or prior period other than those included in the income statement shown above, therefore a separate Statement of comprehensive income has not been presented. The total comprehensive profit for the period ended 2 January 2021 was £1,146k (2019: £1,737k).

The notes on pages 11 to 22 form an integral part of these financial statements.

Balance Sheet
As at 2 January 2021

	Notes	2 January 2021 £'000	4 January 2020 £'000
Non-current assets			
Property, plant and equipment	7	**2,735**	3,250
Right-of-use assets	8	**1,213**	1,306
Intangible assets	9	**2,323**	2,323
Other investments	10	**35**	35
Total non-current assets		**6,306**	6,914
Current assets			
Inventories	11	**780**	759
Trade and other receivables	12	**6,333**	4,619
Cash and cash equivalents		**180**	217
Total current assets		**7,293**	5,595
Total assets		**13,599**	12,509
Non-current liabilities			
Deferred tax*	13	**(118)**	(150)
Lease liabilities	8	**(1,633)**	(1,741)
Total non-current liabilities		**(1,751)**	(1,741)
Current liabilities			
Lease liabilities	8	**(205)**	(205)
Corporate income tax	6	**(220)**	(134)
Total current liabilities		**(425)**	(339)
Total liabilities		**(2,176)**	(2,080)
Net assets		**11,423**	10,429
Equity			
Called up share capital	14	**209**	211
Retained earnings		**11,214**	10,068
Total equity		**11,423**	10,279

* The comparative information has been reclassified from the financial statements previously presented to conform to the presentation of the financial statements for the period ended 2 January 2021.

The notes on pages 11 to 22 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 26 July 2021 and were signed on its behalf by:

M Laine-Toner
Director

J McNeill
Director

C Sellers
Secretary

Statement of Changes in Equity
for the 52 week period ended 2 January 2021

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 5 January 2019	211	8,331	**8,542**
Profit for the period	-	1,737	**1,737**
Balance at 4 January 2020	**211**	**10,068**	**10,279**
Profit for the period	-	1,146	**1,146**
Share withdrawn	(2)	-	**(2)**
Balance at 2 January 2021	**209**	**11,214**	**11,423**

The notes on pages 11 to 22 form an integral part of these financial statements.

Notes
(forming part of the financial statements)

1 General information

The Manx Co-operative Society Limited is a Society domiciled in the Isle of Man. The address of the Society's registered office is 4 Myrtle Street, Douglas, IM1 1ED.

The principal activity of the Society is food retail, operating convenience stores in the Isle of Man.

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation

The Society meets the definition of a qualifying entity under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' and the Co-operative and Community Benefit Societies Act 2014 for the 52 week period ended 2 January 2021.

The financial statements have been principally prepared on the basis of historical cost. Areas where other bases are applied are explained in the relevant accounting policy.

Where applicable, the following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101. The specific exemptions that the Society has taken advantage of are :

- IFRS 7 Financial instruments : Disclosures
- Para 91-99 of IFRS 13 Fair Value Measurements
- Para 38 of IAS 1 Presentation of Financial Statements in respect of comparative information
- Para 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements
- IAS 7 Cash flows
- Para 30-31 of IAS 8 Accounting policies, changes in accounting estimates and errors
- Para 17 and 18A of IAS 24 Related party disclosures
- IAS 24 Intra-group transactions
- The second sentence of para 110 and paras 113(a), 114, 115, 118, 119(a) - (c), 120-127 and 129 of IFRS 15 Revenue from Contracts with Customers
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134 (f) and 135(c) to 135(e) of IAS 36, Impairment of Assets
- The requirements of paragraph 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

New and amended standards adopted by the Society

The Society has considered the following standards and amendments that are effective for the Society for the period commencing 5 January 2020 and concluded that they are either not relevant to the Society or do not have a significant impact on the financial statements

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Definition of Material (Amendments to IAS 1 and IAS 8);
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 37 and IFRS 7)
- Definition of a Business (Amendments to IFRS 3)
- Covid-19 Related Rent Concessions (Amendments to IFRS 16)

Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 2 January 2021 reporting periods and the Society has not early adopted the following standards and statements. The adoption of these standards is not expected to have a material impact on the Society's accounts:

- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16)
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current
- Amendments to IFRS 3 Reference to the Conceptual Framework
- Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use
- Amendments to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020 Cycle - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture

Notes to the financial statements (continued)

2 Accounting policies (continued)

Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and underlying assumptions are based on historical experience 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 underlying 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.

Key judgements:

In the process of applying the Society's accounting policies, management has made the following key judgements which have the most significant impact on the financial statements:

- Leases (note 8) - The Society determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Society has the option, under some of its leases to lease the assets for additional terms of 5 to 10 years. The Society applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Society reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Key estimates and assumptions:

The key assumptions and areas of uncertainty around key assumptions at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Society based its assumptions and estimates on information available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Society. Such changes are reflected in the assumptions when they occur.

- Impairment of non-financial assets (notes 7 - 9) - the carrying amount of non-financial assets (such as property, plant and equipment, right-of-use assets or goodwill and intangibles) is reviewed at each balance sheet date and if there is any indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the greater of the fair value of the asset (less costs to sell) and the value in use of the asset. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its estimated recoverable amount. For property assets the fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

The Society considered whether the COVID-19 pandemic and the accompanying economic uncertainty had the potential to represent a significant impairment indicator as at 2 January 2021. Despite additional associated costs of responding to the pandemic, which are expected to be temporary, the Society's main business areas have proved resilient and the performance of the Society's cash-generating units has remained strong. Therefore, management concluded that the impact of COVID-19 on the longer term outlook for these cash-generating units did not constitute an indicator of significant impairment and hence a full impairment test across all CGUs was not required.

The Society estimates the value in use of an asset by projecting future cash flows into perpetuity and discounting the cash flows (DCF) associated with that asset at a pre-tax rate of between 8.2% (2019: 8.2%).

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern

The Society generated a profit of £1,146k in the period (2019: £1,737k) and at the balance sheet dates holds net assets of £11,423k (2019: £10,279k).

The Society is reliant on the support of Co-operative Group Limited ("the Group") in order to meet its day to day working capital requirements because the Group operates a central treasury function. The Society meets these requirements through cash generated from its operations and participation in facility arrangements provided by external lenders to the Group and certain of its subsidiaries, including the Society ("the Group facilities"). A letter of support has been obtained from the Group as evidence of its intention to give continued financial support. The Group has confirmed that it has the ability to provide such financial support and has committed to providing such support until at least 30 September 2022.

As such, an assessment of the Group was undertaken by the Group Directors to determine the appropriateness of the going concern basis of preparation for its subsidiaries, including the Society.

This assessment of going concern relies heavily on the ability to forecast future cashflows over the going concern assessment period, to 30 September 2022. Although the Group has a robust planning process, the current economic uncertainty caused by the ongoing Covid-19 pandemic and UK recession means that additional sensitivities and analysis have been applied to test the going concern under a range of downside test scenarios. The following steps have been undertaken to allow the Group Directors to conclude on the appropriateness of the going concern assumption:

- Understand what could cause the Group not to be a going concern

In making their assessment the Group Directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability; cash flow and covenant compliance; and available capital resources. The potential scenarios which could lead to the Group not being a going concern are:

a) Not having enough cash to meet the Group's liabilities as they fall due. Throughout the going concern period the facility limit within which the Group needs to operate is £1,169m, which includes £769m non-bank facilities and £400m bank syndicate facilities; and/or
b) A breach of the financial covenants implicit in the Group's bank facility agreement.

- Board review and challenge of the base case forecast produced by management including key investment choices

The Group Directors conducted a highly detailed forward planning exercise as part of the strategic plan. The Group's base case forecast includes prudence due to the uncertainty in the market and impact from recession. The Group have also planned for ongoing pandemic-related costs and provide contingency for risks materialising through the year. The Group Board have reviewed, challenged and approved these plans.

- Consider downside sensitivities across the base case forecast as part of going concern

In undertaking their going concern assessment, the Group Directors have included assumptions related to the impact of the pandemic and sensitivities of internal and external factors on the financial projections including, but not limited to:

a) A reduction in the sales demand in the Retail business, with a prudent 1% LFL reduction to sales calculated versus 2019.
b) A reduction in the timely realisation of the transformation and working capital initiative benefits across the businesses.
c) A reduction in the demand of the Funeralcare business, with a prudent 2% reduction in LFL sales. A lower return on the funeral plan investments was also modelled.
d) Additional Covid-19 pandemic risks in high staff absence rates, lower fuel sales volumes and higher PPE safety costs. Covid-19 risks reverse in 2022 as they represent one-off costs that are only necessary during pandemic conditions.

The sensitivities identified do not risk the validity of the Group as a going concern even before applying the mitigating actions set out below.

- Examine what mitigating actions would be taken in the event of these scenarios.

Whilst out of line with the Group's strategic ambition, there are several options within the Group's control which could be exercised, if certain risks materialised. Options include:

a) The Group's ability to control the level and timing of its capital expenditure programme (circa £550m over the going concern timeframe).
b) Apply cost control measures across both variable and overhead budgets.
c) The Group's options to slow down and reduce investment into price and membership.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern - *continued*

- Perform reverse stress tests to assess under what circumstances going concern would become a risk, assess the likelihood of whether they could occur and any further mitigating actions.

Whilst the initial going concern approach assesses likely risks to the Group's base case forecasts through severe but plausible downside scenarios and options to mitigate them, the reverse stress test represents a worst-case scenario at which point the model breaks. Whilst unlikely, to demonstrate the above, the Group Directors have modelled a significant downturn in the grocery market of a further -3% retraction in Retail sales and a further reduction in funeral volume of -4%. In addition, the Group Directors have modelled the impact of a significant shortfall in the Group's transformation programme benefits delivery.

It is noted, however, that the Group could mitigate the reverse stress test scenario through a further reduction or delay in capital expenditure and a change in the timing of the Group's investment into operational improvements. There is also the option to apply further cost control measures. Whilst all remain undesirable strategically there is also the option to apply further stringent cost control measures.

- Conclude upon the going concern assumption.

For the purposes of going concern the Group Directors assume that no new facilities from re-financing are required or needed by the Group. In addition, the Group has an accordion option with the banking syndicate to obtain £100m of additional revolving credit facilities. Whilst available to the Group, this has not been included in the assessment as the Group's base facilities are enough to cover the Group's going concern calculations without any breach of covenants.

Therefore, after conducting the financial projections exercise set out above and making all appropriate enquiries, the Group Directors have a reasonable expectation that the Society and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. The Society Directors have considered the exercise performed by the Group Directors and have made appropriate enquiries where necessary. The Society Directors have also reviewed internal forecast documentation, management accounts and publicly available information relating to the Group's performance and are satisfied that the Group has access to sufficient funds to honour its commitments set out in the letter of support obtained from the Group. For this reason, the Society Directors continue to adopt the going concern basis in preparing the Society's financial statements.

Cash and cash equivalents

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

Property, plant and equipment and depreciation

PPE is measured initially at historical cost and includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	50 years
Plant, equipment, fixtures, fittings and vehicles	3 - 12 years

The residual value, if not insignificant, is reassessed annually.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

No depreciation is provided on freehold land.

Notes to the financial statements (continued)

2 Accounting policies (continued)

IFRS 16 Leases

i) Right-of-use assets

The Society recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Society is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Society recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Society and payments of penalties for terminating a lease, if the lease term reflects the Society exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

iii) Short-term leases and leases of low-value assets

The Society applies the short-term lease recognition exemption to its short-term leases of plant and machinery (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Impairment

At each reporting date, the Society reviews the carrying amounts of its property, plant and equipment, goodwill, intangibles and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Impairment losses are recognised in the income statement.

Where the asset does not generate cash flows that are independent from other assets, the Society estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. The CGU is deemed to be each trading store.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount is returned to what it would have been, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit, or group of cash-generating units, to which the goodwill relates.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Intangible assets

Goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Assets and liabilities accepted under a transfer of engagements are restated at fair value, including any adjustments necessary to comply with the accounting policies of the Society.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of associates, the carrying value of goodwill is included in the carrying amount of the investment in the associate. Where impairment is required the amount is recognised in the income statement and cannot be written back.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

Acquisition costs are expensed to the income statement when incurred.

Pensions and other post-retirement benefits

The Society operates a defined contribution scheme. The assets of the scheme are held separately from those of the Society. The Society's contributions are charged to the income statement as they become payable, in accordance with the rules of the scheme.

Inventories

Inventories and work in progress are stated at the lower of cost, including attributable overheads, and net realisable value. All inventories are finished goods.

Taxation

(i) Income tax

Income tax on the profit or loss for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

(ii) Deferred taxation

Deferred tax is provided, with no discounting, using the balance sheet liability method, providing for temporary difference 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 assets or liabilities that affect neither accounting nor taxable profits 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. In the case of investment properties it is assumed that uplifts on valuation principally reflect future rentals.

Revenue

Revenue is recognised in line with IFRS 15 (Revenue from Contracts with Customers). IFRS 15 defines performance obligations as a 'promise to provide a distinct good or service or a series of distinct goods or services'. Revenue is recognised when a performance obligation has been delivered which reflects the point when control over a product or service transfers to a customer. Revenue is measured based on the consideration set out in the contract with the customer and excludes amounts collected on behalf of third parties.

The Society recognises revenue when it transfers control over a product to a customer. For the sale of goods, revenue is recognised at the point of sale. Any rebates, VAT and other sales tax or duty items are deducted from revenue. Payment terms are net cash due at point of sale. If a customer is dissatisfied with any of our products and returns it, we would offer a single refund or a replacement product when accompanied by a proof of purchase that verifies the purchase of the product from one of our stores.

All revenue is derived from the Society's principal activity of operating convenience stores and supermarkets in the Isle of Man.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Member rewards

The member rewards earned as part of the membership offer are recognised as a reduction in sales at the point they are earned with a corresponding liability being held on the balance sheet. The liability is reduced when the rewards are redeemed. From October 2020 onwards then member rewards are earned at 2% of sales value (prior to that at 5%). The Community reward is recognised as an operating expense in the income statement when it is earned (from October 2020 at 2% of sales value (prior to that at 1%)).

Supplier income

Supplier income is recognised as a deduction from cost of sales on an accruals basis, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The accrued incentives, rebates and discounts receivable at period end are included within trade and other receivables. Where amounts received are in the expectation of future business, these are recognised in the income statement in line with that future business. There are three main types of income:

1. Long term agreements: These relate largely to volumetric rebates based on agreements with suppliers. They include overriders, advertising allowances and targeted income. The income accrued is based on the joint buying group's latest forecast volumes and the latest contract agreed with the supplier. Income is not recognised until confirmation of the agreement has been received from the supplier.

2. Bonus income: These are typically unique payments made by the supplier and are not based on volume. They include payments for marketing support, range promotion and product development. These amounts are recognised when the income is earned and confirmed by suppliers. An element of the income is deferred if it relates to a future period.

3. Promotional income: Volumetric rebates relating to promotional activity agreed with the supplier. These are retrospective rebates based on sales volumes or purchased volumes.

Share capital

Where the Board has an unconditional right to refuse redemption of co-operative share capital, such shares are treated as equity.

Investments

Investments are stated at fair value.

3 Operating profit

	For period ended 2 January 2021 £'000	For period ended 4 January 2020 £'000
Operating profit has been stated after charging:		
Depreciation of PPE	**617**	705
Depreciation of right-of-use assets	**93**	97
Inventory recognised as an expense	**24,177**	23,779
Intercompany recharge	**1,258**	1,011
	26,145	25,592

The auditor's remuneration of £17,905 (2019: £12,103) is borne by the ultimate parent undertaking.

Notes to the financial statements (continued)

4 Staff costs

The average number of persons employed by the Society during the period, analysed by category, was as follows:

	For period ended 2 January 2021	For period ended 4 January 2020
Full-time	144	143
Part-time	106	112
	250	255

	For period ended 2 January 2021 £'000	For period ended 4 January 2020 £'000
Wages and salaries	3,990	3,659
Social security costs	292	291
Pension costs	80	71
	4,362	4,021

Directors' remuneration in respect of services provided to the Society were £6,000 (2019: £6,000)

5 Supplier income

This note shows the different types of supplier income received. The income is deducted from cost of sales.

	For period ended 2 January 2021 £'000	For period ended 4 January 2020 £'000
Long term agreements	507	526
Bonus income	471	560
Promotional income	1,286	1,249
	2,264	2,335
Percentage of cost of sales before deducting supplier income		
Long term agreements	2.1%	2.2%
Bonus income	1.9%	2.4%
Promotional income	5.3%	5.2%
	9.3%	9.8%

6 Taxation

	For period ended 2 January 2021 £'000	For period ended 4 January 2020 £'000
Current tax (charge) - current period	(215)	(229)
Current tax (charge) - adjustments in respect of prior periods	(112)	7
Deferred tax credit / (charge) - current period items	32	(14)
Deferred tax (charge) / credit - adjustments in respect of prior periods	-	(6)
Total tax charge	(295)	(242)

Notes to the financial statements (continued)

6 Taxation (continued)

The tax on the net profit before tax is applied using the Isle of Man applicable rates of corporation tax of 10%/20% (2019: 10%/20%) as follows:

	For period ended 2 January 2021 £'000	For period ended 4 January 2020 £'000
Profit before tax	**1,441**	1,979
Current tax charge at 10%/20% (2019: 10%/20%)	**(169)**	(215)
Effects of:		
Non deductible expenditure	**-**	(28)
Non qualifying depreciation	**(14)**	-
Current tax prior year adjustment	**(112)**	7
Deferred tax prior year adjustment	**-**	(6)
Total income tax charge on continuing business	**(295)**	(242)

The 2020 Budget Measures announced on 18 February 2020 maintained the 10% tax rates on profits from a retail trade and maintained the rate of income tax on profits from land and property at 20%.

7 Property, plant and equipment

At 4 January 2020

	Land and buildings £'000	**Plant and machinery** £'000	**Total** £'000
Cost			
At 4 January 2020	646	6,239	6,885
Additions	22	79	101
At 2 January 2021	**668**	**6,318**	**6,986**
Depreciation			
At 4 January 2020	636	2,998	3,634
Charge for the period	32	585	617
At 2 January 2021	**668**	**3,583**	**4,251**
Net book value			
At 2 January 2021	**-**	**2,735**	**2,735**
At 4 January 2020	10	3,241	3,251

Notes to the financial statements (continued)

8 Leases

As a lessee

Right-of-use assets

	Property £'000	Total £'000
Balance at 4 January 2020	1,306	**1,306**
Depreciation charge for the period	(93)	**(93)**
Balance at 2 January 2021	1,213	**1,213**

The Society leases many assets, principally it leases properties for its food retail stores. The leases of retail stores are typically between 20 and 50 years in length and in some cases the Society has options to purchase the assets at the end of the contract term.

Lease liabilities

	As at 2 January 2021 £'000
Current	205
Non-Current	1,633
Lease liabilities included in the balance sheet at 2 January 2021	1,838

	As at 2 January 2021 £'000	As at 4 January 2020 £'000
Lease liabilities - undiscounted maturity analysis		
Less than 6 months	**109**	107
6 - 12 months	**109**	107
1 - 2 years	**217**	215
2 - 5 years	**616**	628
5 - 10 years	**992**	982
10 - 15 years	**905**	982
More than 15 years	**-**	110
Total undiscounted lease liabilities	**2,948**	3,131

	As at 2 January 2021 £'000	As at 4 January 2020 £'000
Opening lease liabilities	**1,946**	2,121
Additions	**-**	(78)
Interest expense	**108**	118
Payments	**(216)**	(215)
Closing lease liabilities	**1,838**	**1,946**

Extension options

Some leases of retail stores contain extension or termination options exercisable by the Society up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension and termination options in new leases to provide operational flexibility. The extension and termination options held are typically exercisable only by the Society and not by the lessors.

The Society assesses at lease commencement whether it is reasonably certain to exercise the extension or termination options. The Society reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

As at 2 January 2021, included within the lease liability are future cash outflows of £486k (discounted) where the Society holds termination options but it is not reasonably certain to execute those termination options.

Notes to the financial statements (continued)

9 Intangible assets

	Goodwill £'000
At 4 January 2020	**2,323**
At 2 January 2021	**2,323**

The goodwill balance relates to the Ramsey (£2,200,000) and Laxey (£122,717) stores and represents the difference between the fair value of the assets on the acquisition at these sites and the fair value of the consideration paid at that time.

In line with the Society's accounting policies an annual impairment review has been undertaken to compare the carrying value of the goodwill with the estimated recoverable amount. The recoverable amount of the Society's assets is the greater of their net selling price and value in use. In assessing value in use, current pre-tax cashflows, taken to perpetuity, have been discounted at a rate of 8.2% using growth rates from the 4 year plan. Key assumptions used in assessing value in use are past experience as well as forecast growth in the business.

This has been done on an individual store basis representing each relevant cash generating unit. On this basis, impairment of £nil (2019: £97,283) relating to the Laxey store was booked. There is no impairment of the goodwill required at the Ramsey store as the expected value in use for the store exceeds the carrying value of its goodwill.

10 Other Investments

	£'000
Net book value	
At 4 January 2020	35
At 2 January 2021	**35**

The Society holds investments of £35,000 (2019: £35,000) in the following subsidiary undertakings:

		£'000	**Nature of share capital**	**Principal activity**	**% Ownership**
Co-operative Group Limited	1 Angel Square, Manchester, M60 0AG	35	Ordinary	Food Retail	100%
		35			

11 Inventories

	As at 2 January 2021 £'000	As at 4 January 2020 £'000
Goods for resale	**780**	759

12 Trade and other receivables

	As at 2 January 2021 £'000	As at 4 January 2020 £'000
Current assets:		
Amounts owed by other Group undertakings	**6,333**	4,619

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the financial statements (continued)

13 Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 10% (2019: 10%).

	£'000
Deferred taxation liability	
At 4 January 2020	(150)
Income statement credit	32
At 2 January 2021	(118)
Comprising:	
Tangible fixed assets	(185)
IFRS16 leases	67
At 2 January 2021	(118)

14 Share capital

	For period ended 2 January 2021 £'000	For period ended 4 January 2020 £'000
Authorised		
A class ordinary shares of £1 each	**306**	306
Allotted, called up and fully paid		
A class ordinary shares of £1 each	**209**	211

IFRIC 2 determines the features, which allow shares to be classified as equity capital.

The £209,000 (2019: £211,000) "A" class ordinary shares are voting, non transferable and redeemable at par. The Board took the decision to cease paying interest on share capital with effect from 1 February 2013 (historically interest was accrued annually to the shareholders based upon the prevailing Co-operative Bank base rate). The period on period movement on this balance represents the impact of the purchase and withdrawal of shares in the Society by members.

In addition there are 16 (2019: 16) "B" class ordinary shares are voting, transferable non-redeemable and are not entitled to any benefits arising out of the results of the Society.

15 Parent and controlling parties

The Society has a subsidiary relationship with Co-operative Group Limited, a Registered Society under the Co-operative and Community Benefit Societies Act 2014, registered in England and Wales. The Society's results are included within the consolidated accounts that are prepared for Co-operative Group Limited. A copy of the Co-operative Group Limited accounts can be obtained from the Secretary, Co-operative Group Limited, 1 Angel Square, Manchester, M60 0AG. Co-operative Group Limited also holds the Class B shares in the Society and retains certain controlling powers within the Rules of the Society, including appointing and removing Directors to and from the Board. Further details on the called up share capital of the Society and the rights attached to the share categories is detailed in Note 14 to these accounts.