

The Manx Co-operative Society Limited

Annual Report and Financial Statements

Registered number IM 25

4 January 2020

## **Corporate Information**

### **Directors**

The Directors who held office during the year 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 LC, Statutory Auditor  
Rose House  
51 - 59 Circular Road  
Douglas  
Isle of Man  
IM1 1AZ

### **Registered Office**

4 Myrtle Street  
Douglas  
IM1 1ED

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## Directors' Report

The Directors are pleased to present their annual report and financial statements for the 52 week period ended 4 January 2020.

### 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 £2,056,000 (period ended 5 January 2019: £906,000).

Continued sales growth has been achieved with customer numbers slightly up by 1.3% (2018: 0.8% up) and average basket spend up 1.7% (2018: 2.3% up). Overall profitability has increased with operating profit of 5.6% of sales (2018: 2.8%).

Strong sales growth and prudent cost controls ensured that store controllable profit grew significantly. Over £100,000 was again distributed to local causes (including Ramsey and Peel High Schools, Craigs Heartstrong Foundation and IOM Live at Home Schemes to name but a few) and over £500,000 was earned by our members from the membership scheme. Laxey Store was extensively refurbished following a 6 week closure period which completed the refurbishment and rebranding programme for the Isle of Man Stores. The Operations Team look forward to adding a new store in Crosby to the portfolio in 2020. The business change programme continued apace with business investment in technologies to make our stores safer, more efficient and more service led. Investment in colleagues continued with an above inflation increase to colleague salaries and internal development meant that all Manx Management appointments in 2019 were internal promotions.

### Dividend

The Directors do not recommend the payment of a dividend (52 week period ended 5 January 2019: £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 year 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 year.

By order of the Board



C Sellers  
Secretary  
Date 29 September 2020

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 year, 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**

### **Opinion**

We have audited the financial statements of The Manx Co-operative Society Limited ('the Society') for the 52 week period ended 4 January 2020 which comprise the Profit and Loss Account, the Statement of Financial Position and the Statement of Changes in Equity and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101, "Reduced Disclosure Framework".

In our opinion, the financial statements:

- give a true and fair view of the state of the Society's affairs as at 4 January 2020 and of its income and expenditure for the period then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 101, "Reduced Disclosure Framework";
- have been prepared in accordance with the Industrial and Building Societies Acts 1892 to 1986.

### **Basis for opinion**

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 Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, 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 opinion.

### **Emphasis of matter**

We draw attention to Note 2 and 17 of the financial statements, which describes the economic and social consequences the society is facing as a result of COVID-19 which is impacting supply chains, consumer demand, personnel available for work and or being able to access offices among other macroeconomic factors. Our opinion is not modified in respect of this matter.

### **Conclusions relating to going concern**

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

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

### **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 Board is responsible for the other information.

Our opinion on the financial statements does not cover the other information and 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 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Responsibilities of the Board**

As explained more fully in the directors' responsibilities statement, 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)**

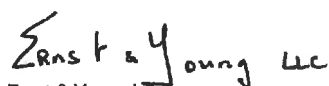
### **Auditor's responsibilities for the audit of the financial statements**

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.

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 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.



Ernst & Young LLC  
Chartered Accountants  
Isle of Man

1 October 2020

**Profit and Loss Account**  
*for the period ended 4 January 2020*

		For period ended 4 January 2020	For period ended 5 January 2019 (restated*)
	Notes	£'000	£'000
Revenue		36,480	35,062
Cost of sales		(23,779)	(23,697)
<b>Gross profit</b>		<b>12,701</b>	<b>11,365</b>
Administrative expenses		(6,884)	(6,886)
Distribution costs		(3,664)	(3,573)
Other Operating Expenses		(97)	-
<b>Operating Profit</b>		<b>2,056</b>	<b>906</b>
Finance income/(expense)		(77)	76
<b>Profit/(Loss) before taxation</b>		<b>1,979</b>	<b>982</b>
Taxation	6	(242)	(135)
<b>Profit for the period</b>	3	<b>1,737</b>	<b>847</b>

**Statement of Comprehensive Income**  
*for the period ended 4 January 2020*

		For period ended 4 January 2020	For period ended 5 January 2019 (restated*)
		£'000	£'000
<b>Profit for the period</b>	3	<b>1,737</b>	<b>847</b>
<b>Total comprehensive profit for the period</b>		<b>1,737</b>	<b>847</b>

All amounts relate to continuing activities



**Statement of Financial Position**  
**As at 4 January 2020**

		As at 4 January 2020	As at 4 January 2020	As at 5 January 2019 (restated*)	As at 5 January 2019 (restated*)
	Notes	£'000	£'000	£'000	£'000
<b>Non-current assets</b>					
Property, plant and equipment	7	3,250		3,215	
Right-of-use assets**	8	1,306		-	
Intangible assets	9	2,323		2,420	
Other investments	10	35		35	
<b>Total non-current assets</b>			<b>6,914</b>		<b>5,670</b>
<b>Current assets</b>					
Inventories	11	759		615	
Trade and other receivables	12	4,619		2,962	
Cash and cash equivalents		217		233	
<b>Total current assets</b>			<b>5,595</b>		<b>3,810</b>
<b>Total assets</b>			<b>12,509</b>		<b>9,480</b>
<b>Non-current liabilities</b>					
Lease liabilities**	8	(1,741)		-	
<b>Total non-current liabilities</b>			<b>(1,741)</b>		<b>-</b>
<b>Current liabilities</b>					
Lease liabilities**	8	(205)		-	
Deferred tax	13	(150)		(198)	
Corporate income tax	6	(134)		(124)	
<b>Total current liabilities</b>			<b>(489)</b>		<b>(322)</b>
<b>Total liabilities</b>			<b>(2,230)</b>		<b>(322)</b>
<b>Net assets</b>			<b>10,279</b>		<b>9,158</b>
<b>Equity</b>					
Called up share capital	14	211		211	
Retained earnings		10,068		8,947	
<b>Total equity</b>		<b>10,279</b>		<b>9,158</b>	

\* For more details on the restatement, refer to the general accounting policies section on page 11.

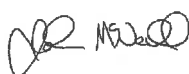
\*\*The Society has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 2 to the financial statements.

These financial statements were approved by the Board of Directors on 29 September 2020  
behalf by:

and were signed on its



**M Laine-Toner**  
Director



**J McNeill**  
Director



**C Sellers**  
Secretary

**Statement of Changes in Equity**  
*for the period ended 4 January 2020*

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 6 January 2018 (restated*)	253	8,100	8,353
Profit for the period	-	847	847
Share withdrawn	(42)	-	(42)
<b>Balance at 5 January 2019 (as originally reported)</b>	<b>211</b>	<b>8,947</b>	<b>9,158</b>
Impact of adoption of IFRS 16 on opening reserves as at 6 January 2019**	-	(684)	(684)
Tax on impact of IFRS 16 on reserves as at 6 January 2019	-	68	68
<b>Balance at 6 January 2019 (after impact of IFRS 16)</b>	<b>211</b>	<b>8,331</b>	<b>8,542</b>
Profit for the period	-	1,737	1,737
<b>Balance at 4 January 2020</b>	<b>211</b>	<b>10,068</b>	<b>10,279</b>

\* For more details on the restatement, refer to the general accounting policies section on page 11.

\*\*The Society has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 2 to the financial statements.

**Notes**  
**(forming part of the financial statements)**

**1 Authorisation of financial statements and statement of compliance with FRS 101**

The financial statements of The Manx Co-operative Society Limited for the 52 weeks ended 4 January 2020 were authorised for issue by the board of directors on 29 September 2020 and the balance sheet was signed on the board's behalf by M Laine-Toner, J McNeill and C J Sellers.

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.

These financial statements were prepared in accordance with applicable United Kingdom accounting standards including Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101).

The principal accounting policies adopted by the Society are set out in Note 2.

**2 Accounting policies**

**Accounting date**

The financial statements for the period are prepared for the 52 weeks to 4 January 2020. The corresponding figures for the previous period are prepared for the 52 weeks to 5 January 2019.

**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.

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.

As permitted by FRS 101, the Society has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, fair value measurements, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets, related party transactions and revenue from contracts with customers.

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 Instruments
- Para 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Instruments
- 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.

**Restatement**

The comparative figures presented within these financial statements for the financial year ended 5 January 2019 are consistent with the 2018 financial statements with the exception of the impact of IFRS 16, and also a restatement of the prior year as follows:

**Intercompany recharges**

During 2019 management identified that despite a contractual agreement, The Manx Co-operative Society Limited had not been charged for services levied across from a Society within the Co-operative Group Limited's group. In order to rectify the historical position, a charge for historical services was made in 2019 for services performed in past years. This charge has subsequently been settled by the Society. As the amounts are deemed material and relate to historic years, a prior year restatement has been recorded to reflect the charges that were omitted.

## Notes to the financial statements (continued)

### 2 Accounting policies (continued)

#### Intercompany recharges (continued)

The tables below show the impact on those line items affected by the restatements:

#### Statement of financial position as at 5 January 2019

	Originally reported (£'000)	Intercompany recharge (£'000)	Restated (£'000)
Trade and other receivables	16,691	(13,729)	2,962
<b>Total current assets</b>	<b>17,539</b>	<b>(13,729)</b>	<b>3,810</b>
<b>Total assets</b>	<b>23,209</b>	<b>(13,729)</b>	<b>9,480</b>
<b>Total liabilities</b>	<b>322</b>	<b>-</b>	<b>322</b>
Retained earnings	22,676	(13,729)	8,947
<b>Total equity</b>	<b>22,887</b>	<b>(13,729)</b>	<b>9,158</b>

Profit and loss account for the period ending 5 January 2019

	Originally reported (£'000)	Intercompany recharge (£'000)	Restated (£'000)
Revenue	35,062	-	35,062
Cost of sales	(23,697)	-	(23,697)
Admin expenses	(5,875)	(1,011)	(6,886)
Distribution costs	(3,573)	-	(3,573)
Finance income	-	76	76
<b>Profit before tax</b>	<b>1,917</b>	<b>(935)</b>	<b>982</b>
Tax	(229)	94	(135)
<b>Profit for the period</b>	<b>1,688</b>	<b>(841)</b>	<b>847</b>

#### New and amended standards adopted by the Society

The Society has applied the following standards and amendments for the first time:

- IFRS 16 Leases

The Society has applied all endorsed IFRSs that are effective on a European basis for the Society's financial statements for the period ended 4 January 2020 and the comparative period, unless otherwise stated.

The Society applied IFRS 16 for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described on page 14.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Society. The Society has not early-adopted any standards, interpretations or amendments that have been issued but are not yet effective.

#### 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.

Estimates made by management in the application of FRS 101 that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year comprise: supplier income (note 5); impairment of non-financial assets (note 7 and 9); lease liabilities (note 8); deferred tax (note 13). Examples of the key estimates made arise from actuarial assumptions, historic experience, discount rates, growth rates, estimation of future cash flows and expectation of future taxable profits.

## Notes to the financial statements (continued)

### 2 Accounting policies (continued)

#### Going concern

The Society generated a profit of £1,737k in the period (2018 : £847k) and at the balance sheet dates holds net assets of £10,279k (2018: £9,158k).

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"), and in respect of which the Society has provided a cross guarantee. A letter of support has been obtained from the Group as evidence of its intention to give continued financial support.

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

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. This included consideration of a base case and sensitivities considered reasonably possible in relation to trading performance and cash flow requirements. In making their assessment the Group Directors have noted that the consolidated group accounts show a net current liability position. The Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in Note 29 of the Group's Annual Report, certain of which are provided subject to continued compliance with certain covenants.

COVID-19 is having a material impact on the operations of the Group and significant additional costs are being incurred, particularly in payroll as additional colleagues are recruited to meet demand and cover the work of those colleagues who are absent and being paid.

In undertaking the going concern assessment of the Group, assumptions on the key impacts of Covid-19 have been included on the financial projections, including (but not limited to) impacts on:

- Food store and funeral branch Payroll
- Logistics payroll
- Investment in protective equipment
- Increased cleansing and sanitation costs within store costs
- Front line colleague reward
- Type and size of funeral in response to restrictions on number of attendees (placed by government guidelines and in some cases even stricter restrictions by some crematoria) and people not being able to attend due to self-isolation
- The impact on demand in the Food business, taking into account a prudent but realistic view of the experience of the last few months
- The impact of government support for businesses – particularly business rates and VAT reliefs
- The Group's ability to control the level and timing of its capital expenditure programme (c£600m over the going concern timeframe)

The business rates support provided by UK government to the Group and UK entities, combined with the increased sales demand assumed within the Food business goes some way to limiting the significant incremental costs highlighted above.

After conducting the financial projections exercise 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. For this reason, the Directors of the Society 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)

#### 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.

#### 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.

In calculating the present value of lease payments, the Society uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

#### Short-term leases and leases of low-value assets

The Society applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (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.

#### Leased assets (accounting policies applicable prior to 6 January 2019)

Leases where the Group takes on substantially all the risks and rewards of ownership are classified as finance leases. Plant and vehicles acquired under finance leases are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at the start of the lease, less accumulated depreciation and any impairment losses.

Depreciation is provided on the same basis as for owned assets. Minimum finance lease payments are apportioned between the finance charge and the repayment of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments in respect of operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and the aggregate benefit is recognised as a reduction of rental expense over the lease term on a straight-line basis.

For any leases where the Group is the landlord, the aggregate cost of incentives is recognised as a reduction of rental income over the lease term on a straight-line basis.

#### Significant judgement in determining the lease term of contracts with renewal options

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. The Society included the renewal period as part of the lease term for leases of property due to the significance of these assets to its operations.

## **Notes to the financial statements (continued)**

### **2 Accounting policies (continued)**

#### **Impairment**

The carrying amount of property, plant and equipment and right-of-use assets are reviewed at each balance sheet date and if there is any indication of impairment the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Profit and Loss Account.

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, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of these assets, an impairment loss is reversed if there has been a change in the estimates based on an event subsequent to the initial impairment used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

#### **Intangible assets**

##### **Goodwill**

All business combinations are accounted for by applying the acquisition method. Goodwill represents amounts arising on acquisition of subsidiaries, associated, and joint ventures. In respect of business acquisitions, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets required.

#### **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.

## Notes to the financial statements (continued)

### 2 Accounting policies (continued)

#### 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.

#### Member rewards

The 5% Member rewards earned as part of the membership proposition are recognised as a reduction in sales at the point they are earned with a corresponding liability being held on the balance sheet in another Group entity. The liability is extinguished and the sale recognised when the rewards are redeemed. The 1% Community rewards is recognised in the Profit and Loss Account at the point it is earned.

#### 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 year 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 overrides, 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.

#### Sale of goods

The Group 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.



## Notes to the financial statements (continued)

### 2 Accounting policies (continued)

#### Adoption of IFRS 16

##### (i) The effect of the adoption of IFRS 16

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Society, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Society has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 6 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

Impact on the statement of financial position (increase / (decrease)) as at 6 January 2019:

	£'000
<b>Assets</b>	
Right-of-use assets	1,481
Property, plant and equipment	-
Trade and other receivables	(44)
Deferred tax asset	68
<b>Total assets</b>	<b>1,505</b>
<b>Equity</b>	
Retained earnings	(616)
<b>Total equity</b>	<b>(616)</b>
<b>Liabilities</b>	
Lease liabilities	(2,121)
Trade and other payables	-
Provisions	-
<b>Total liabilities</b>	<b>(2,121)</b>

Impact on the statement of comprehensive income for the period ended 4 January 2020 with increases in costs shown as a negative figure and a reduction in costs shown as a positive figure:

	£'000
Depreciation expense (included in operating costs)	(97)
Rent expense (previously included in operating costs)	214
Profit/loss on disposals	-
<b>Operating profit</b>	<b>117</b>
Finance costs	(118)
<b>Profit before tax</b>	<b>(1)</b>
Taxation	- 0
<b>Profit for the period</b>	<b>(1)</b>

## Notes to the financial statements (continued)

### 2 Accounting policies (continued)

#### (ii) Nature of the effect of adoption of IFRS 16

##### *The Society's leasing activities and how these are accounted for*

In previous reporting periods (including the 2018 financial statements for the period ended 5th January 2019), leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 6 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Society. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 impairment of assets. This replaces the previous requirement to recognise a provision for onerous lease contracts. However an onerous provision is still held on balance sheet for onerous non-rental costs such as service charges on leasehold properties, as these costs are outside of the scope of IFRS 16. The impact of this is a reduction in the onerous lease provision of £nil as at 6 January 2019.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

##### *Adjustments recognised on adoption – Lease liabilities*

On adoption of IFRS 16, the Society recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 6 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 6 January 2019 was 5.55%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

	£'000
Operating lease commitments disclosed as at 6 January 2019	2,332
Discounted using the lessee's incremental borrowing rate of 5.55% at the date of initial application	1,616
Add: finance lease liabilities recognised as at 6 January 2019	-
(Less): short-term leases recognised on a straight-line basis as expense	-
(Less): low-value leases recognised on a straight-line basis as expense	-
Add/(less): adjustments as a result of a different treatment of extension and termination options	505
<b>Lease liability recognised as at 6 January 2019</b>	<b>2,121</b>
Of which are:	£'000
Current lease liabilities	97
Non-current lease liabilities	2,024
	<b>2,121</b>

The lease liability recognised as at 6 January 2019 of £2,121k is comprised of the additional lease liabilities brought onto the balance sheet on the adoption of IFRS 16 of £2,121k.

## Notes to the financial statements (continued)

### 2 Accounting policies (continued)

#### (ii) Nature of the effect of adoption of IFRS 16 (continued)

##### *Adjustments recognised on adoption – Right-of-use assets*

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 5 January 2019.

The recognised right-of-use assets relate to the following types of assets:

	As at 4 January 2020	As at 5 January 2019
Property	1,306	1,481
<b>Total right-of-use assets</b>	<b>1,306</b>	<b>1,481</b>

##### *Adjustments recognised on adoption - practical expedients applied*

In applying IFRS 16 for the first time, the Society has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 6 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Society has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Society relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

### 3 Operating profit

	For period ended 4 January 2020	For period ended 5 January 2019 (restated*)
	£'000	£'000
<i>Operating profit has been stated after charging:</i>		
Depreciation of PPE	705	618
Depreciation of right-of-use assets*	97	-
Inventory recognised as an expense	23,779	23,697
Intercompany recharge	1,011	1,011
Operating lease rental charges*	-	209
	<b>25,592</b>	<b>25,535</b>

The auditor's remuneration of £12,103 (period ended 5 January 2019: £11,750) is borne by the ultimate parent undertaking.

\*The Society has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in note 2 to the financial statements.

### 4 Staff costs

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

	For period ended 4 January 2020	For period ended 5 January 2019
Full-time	143	183
Part-time	112	164
	<b>255</b>	<b>347</b>

**Notes to the financial statements (continued)**

**4 Staff costs (continued)**

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
Wages and salaries	3,659	3,888
Social security costs	291	0
Pension costs	71	60
	<b>4,021</b>	<b>3,948</b>

Directors' remuneration in respect of services provided to the Society were £6,000 (for the period ended 5 January 2019: £3,692)

**5 Supplier income**

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

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
Long term agreements	526	549
Bonus income	560	549
Promotional income	1,249	1,256
	<b>2,335</b>	<b>2,354</b>

Percentage of cost of sales before deducting supplier income

Long term agreements	2.2%	2.3%
Bonus income	2.4%	2.3%
Promotional income	5.2%	5.3%
	<b>9.8%</b>	<b>9.9%</b>

**6 Taxation**

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 (restated*) £'000
Current tax (charge) / credit - current year	(229)	(124)
Current tax (charge) / credit - adjustments in respect of prior periods	7	6
Deferred tax (charge) / credit - current period items	(14)	(11)
Deferred tax (charge) / credit - adjustments in respect of prior periods	(6)	(6)
Total tax charge	<b>(242)</b>	<b>(135)</b>

## 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% (5 January 2019: 10%/20%) as follows:

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 (restated*) £'000
Profit before tax	1,979	982
Current tax charge at 10%/20% (5 January 2019: 10%/20%)	(215)	(117)
<i>Effects of:</i>		
Expenses not deductible for tax (including significant items)	(28)	(18)
Adjustments in respect of previous periods	1	-
Total income tax charge on continuing business	(242)	(135)

The 2019 Budget Measures announced on 19 February 2019 maintained the 10% tax rate on profits from income from a retail trade and maintained the rate of income tax on profits from land and property at 20%.

The financial statements have been restated for prior periods for intercompany recharges between the Manx Co-operative Society and the Co-operative Group. More information on these intercompany recharges is provided in Note 2 of the financial statements. This adjustment has led to a restatement of the prior year current tax charge by £94k tax credit leaving a restated tax charge of £124k. This restatement reflects the expected tax benefit available to The Manx Co-operative Society in the period ended 5 January 2019. It is uncertain whether tax relief will arise for recharges prior to the period ended 5 January 2019, due to limitations within statute.

\* For more details on the restatement, please refer to the general accounting policies section on page 11.

### 7 Property, plant and equipment

#### At 4 January 2020

	Land and buildings £'000	Plant and machinery £'000	Total £'000
<i>Cost</i>			
At 5 January 2019	632	5,512	6,144
Additions	14	727	741
<b>At 4 January 2020</b>	<b>646</b>	<b>6,239</b>	<b>6,885</b>
<i>Depreciation</i>			
At 5 January 2019	586	2,343	2,929
Charge for the period	50	655	705
<b>At 4 January 2020</b>	<b>636</b>	<b>2,998</b>	<b>3,634</b>
<i>Net book value</i>			
<b>At 4 January 2020</b>	<b>10</b>	<b>3,241</b>	<b>3,251</b>
At 5 January 2019	46	3,169	3,215

## Notes to the financial statements (continued)

### 8 Leases

#### As a lessee

##### Right-of-use assets

	Property £'000	Plant and equipment £'000	Total £'000
Finance leases previously recognised	-	-	-
On adoption of IFRS 16	1,481	-	1,481
<b>Balance at 6th January 2019</b>	<b>1,481</b>	<b>-</b>	<b>1,481</b>
Depreciation charge for the year	(97)	-	(97)
Additions	(78)	-	(78)
Disposals	-	-	-
Impairment	-	-	-
<b>Balance at 4th January 2020</b>	<b>1,306</b>	<b>-</b>	<b>1,306</b>

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

	<b>As at 4 January 2020</b>
	£'000
Current	205
Non-Current	1,741
<b>Lease liabilities included in the statement of financial position at 4 January 2020</b>	<b>1,946</b>
Finance leases previously recognised	-
On adoption of IFRS 16	2,121
<b>As at 6 January 2019</b>	<b>2,121</b>
Additions	(78)
Disposals	-
Interest expense	118
Payments	(215)
<b>Balance at 4th January 2020</b>	<b>1,946</b>

The Society recognised rent expense from short-term leases of £213,464 for the period ended 4 January 2020.

##### 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 Group and not by the lessors.

The Group assesses at lease commencement whether it is reasonably certain to exercise the extension or termination options. The Group 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 4 January 2020, included within the lease liability are future cash outflows of £505k (discounted) where the Group 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 5 January 2019	<b>2,420</b>
Impairment Charge	(97)
At 4 January 2020	<b>2,323</b>

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 £97,283 (period ended 5 January 2019: £nil) 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 5 January 2019	35
At 4 January 2020	<b>35</b>

The Society holds investments of £35,000 (period ended 5 January 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%
		<b>35</b>			

### 11 Inventories

	As at 4 January 2020 £'000	As at 5 January 2019 £'000
Goods for resale	<b>760</b>	<b>615</b>

### 12 Trade and other receivables

	As at 4 January 2020 £'000	As at 5 January 2019 (restated*) £'000
<i>Current assets:</i>		
Amounts owed by other Group undertakings	<b>4,619</b>	<b>2,962</b>

\* For more details on the restatement, please refer to the general accounting policies section on page 11.

## 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% (5 January 2019: 10%).

	As at 4 January 2020 £'000	As at 5 January 2019 (restated*) £'000
<i>Deferred taxation liability</i>		
At 5 January 2019	(198)	(180)
Adoption of IFRS16	68	-
Restated as at 5 January 2019	(130)	(180)
Income statement charge	(20)	(18)
At 4 January 2020	(150)	(198)
Comprising:		
Accelerated tax depreciation & expenditure not allowed for tax purposes	(218)	(198)
IFRS16 transitional adjustment	68	-
At 4 January 2020	(150)	(198)

The financial statements have adopted IFRS 16 with effect from 6 January 2019. More information on this is provided in Note 2 of the financial statements. This has led to the recognition of a deferred tax asset of £68k on the net transitional adjustment of £684k.

\* For more details on the restatement, please refer to the general accounting policies section on page 11.

### 14 Share capital

	For period ended 4 January 2020 £'000	For period ended 5 January 2019 £'000
<i>Authorised</i>		
A class ordinary shares of £1 each	306	306
<i>Allotted, called up and fully paid</i>		
A class ordinary shares of £1 each	211	211

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

The £211,000 (period ended 5 January 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 year on year movement on this balance represents the impact of the purchase and withdrawal of shares in the Society by members.

In addition there are 16 (period ended 5 January 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.



## Notes to the financial statements (continued)

### 15 Commitments

There are no capital commitments at the end of the current period and preceding financial year.

As at 5 January 2019, the future minimum lease payments under non-cancellable operating leases\* were as follows:

	As at 5 January 2019 Land and buildings £'000
Operating leases which expire:	
Within one year	212
In the second to fifth years inclusive	829
Over five years	1,291
	<hr/> 2,332 <hr/>

\*The Society has applied IFRS 16 (Leases) at 6 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative impact of applying the new standard is recognised in retained earnings at the date of initial application. For more details on the impact of IFRS 16 (Leases), refer to the accounting policies section in Note 2 to the financial statements.

### 16 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.

### 17 Post balance sheet events

#### Coronavirus (Covid-19)

On 11 March 2020, subsequent to the balance sheet date, the World Health Organisation ('WHO') declared Covid-19 as a pandemic. Shortly after this announcement, the Manx Government took action including implementing social distancing measures and advising people to stay at home. However with effect from 15 June 2020, the Manx Government scrapped social distancing measures. Given the recent escalation of Covid-19, this is considered as a non-adjusting post balance sheet event.

The Society's parent, The Co-operative Group Limited ("the Group") is currently seeing Covid-19 impact its cost base in areas such as front line and logistics payroll, investment in protective equipment, increased cleansing and sanitation costs within store costs. The Group has also seen an impact on demand in the business, taking into account a prudent but realistic view of the experience of the last few months. This is also the case for the Society.

It is clearly impossible at this stage to accurately predict the impact on 2020 results but scrapping of social distancing measures combined with the increased sales demand assumed within the business goes some way to limiting the significant incremental costs highlighted above.

Within the accounting policies section, further detail on the key impacts of Covid-19 on the financial projections in the assessment of the Going Concern of the Society is provided. An indication of the potential impact of Covid-19 on key assumptions and estimates contained within the balance sheet is also provided below:

#### Impairment of Property, plant & equipment (£3,250k), Right-of use assets (£1,306k), Goodwill and intangible assets (£2,323k)

The estimates and assumptions used within the impairment methodology on these non-current assets do not include the impact of Covid-19 as this was not an observable indicator as at the balance sheet date. Covid-19 could have a material impact on the impairment assessment as a result of unpredictable cashflows in the business, and changes in the discount rates that we have applied, not least because of changes in macroeconomic factors since the escalation of Covid-19.

Given the difficulty in quantifying the impact of Covid-19, it is inherently difficult to quantify the potential impact on the impairment of non-current assets. This is made more difficult given the number of CGU's in the business, for example each individual food store is considered a separate CGU in which we would need to be reassessed for the impact of Covid-19. As a result a reasonable estimate of the impact of Covid-19 cannot be provided at this time.

