

Registered number: 00052099

**S.A. BRAIN & COMPANY LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 1 OCTOBER 2016**



## **S.A. BRAIN & COMPANY LIMITED**

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## **S.A. BRAIN & COMPANY LIMITED**

### **CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 1 OCTOBER 2016**

The year saw good progress being made across many of the fundamental areas of the business and it is encouraging to see the improvement in our key performance metrics. We continued to invest in the fabric of our pub estate at a level ahead of our business plan in order to make it 'fit-for-purpose' for the longer term. Coffee#1 expanded further in terms of store numbers, locations and profit contribution to the Group and we are building positive momentum in our Leased & Tenanted estate.

Although we had started to witness improving consumer confidence during the year, the referendum vote to leave the EU in June has created a degree of uncertainty that we will have to manage for the foreseeable future. Trading over the year was inconsistent, with a very positive start due to the Rugby World Cup matches held in Cardiff. Festive trading in 2015 happened late, but was reasonably good overall. Spring was as planned and the summer period was mixed. Our Managed House estate outperformed the overall UK market in sales terms across the year and, although the coffee market slowed a little, we enjoyed strong momentum through Coffee#1.

The statutory financial statements for 2016 have been adapted for the new FRS 102 accounting standard, which has meant restating the 2015 financial statements so that the two years are comparable. The main areas affected are asset values, depreciation, interest rate hedges and the defined benefit pension schemes. The Group's freehold and leasehold properties have been revalued and updated according to the new accounting standard and this has resulted in an increase in our properties' values of £35.0m when compared to 28<sup>th</sup> September, 2014. In addition, the depreciation, loss on sale of fixed assets and the impairment in the year ended 26<sup>th</sup> September 2015 has been reduced by £6.0m in the restated accounts. As part of these changes, the Group has also had to recognise the fair value of interest rate hedges not recognised under the previous UK GAAP accounting standard. This has had the impact of reducing shareholders funds in the 28<sup>th</sup> September 2014 Balance Sheet by £7.2m.

#### **Group Performance**

Group turnover grew by 7% (5% excluding the 53<sup>rd</sup> week) to £135m. The largest sales increase was through our growing coffee business, which was up 28% and, within the core S.A. Brain business, Managed House sales were up by over 3%. However, both Tenanted net sales and the combined Take Home and National Sales divisions produced a small sales decline. Sales from Contract Brewing increased by 15% due to Heineken requesting incremental volumes over and above the contracted level. As a reminder, this contract is due to end in March 2017 and we are not expecting it to continue past this point.

Gross profit, after taking account of all pub and coffee shop operational costs, was up by around 3%, although the gross profit percentage has fallen from 13.6% last year to 13.1%, due to a variety of factors including the higher level of contract brewing which is at a lower margin. Despite experiencing external inflation in core areas of the business, underlying net operating expenses were well controlled and lower than plan.

Operating profit for the business increased by 23% to £5.5m. We sold 14 properties during the year, which cumulatively generated over £3m in cash and produced a small book profit of £405k.

The interest cost associated with running the business has reduced considerably due to the restructuring of historic hedging instruments reported last year.

Adjusted EBITDA (earnings before interest, tax, depreciation, amortisation and exceptionals) was £13.2m which was in line with last year. Capital investments totalled over £14m in the year, compared to £9m in the prior year. Bank debt at the end of the year was £79.8m compared to £67.8m last year, reflecting the increased levels of investment across the business and buying-out historical interest rate hedges.

**S.A. BRAIN & COMPANY LIMITED**

**CHAIRMAN'S STATEMENT  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**Dividends**

The Board has resolved to maintain the level of underlying dividend paid last year and will recommend to the Annual General Meeting a final dividend of 166p per ordinary share paid in two tranches, with the first tranche of 83p per ordinary share paid on 3<sup>rd</sup> April, 2017 and the second tranche of 83p per ordinary share paid on 2<sup>nd</sup> October, 2017.

**J F W Rhys**  
Chairman

## **S.A. BRAIN & COMPANY LIMITED**

### **CHIEF EXECUTIVE'S REVIEW FOR THE YEAR ENDED 1 OCTOBER 2016**

A wide number of initiatives were undertaken across the business during the year and progress was made against our five-year plan, particularly in terms of improvements in developing our people, our customer offers and returns from pub investments. Everyone across the company has worked extremely hard on managing the development of the business this year and I would like to thank them for all their efforts.

#### **Managed Houses**

Total sales were up 3% versus last year, but on a like-for-like basis were up 1.5%, which outperformed the main market indicator by 0.8%. Food continues to provide the strongest level of growth with sales up 5%. Trading patterns varied considerably across the year making cost controls more difficult. This was further challenged by the introduction of the National Living Wage, which resulted in payroll costs as a percentage of sales increasing. This is a key area of focus for the current year. However, we worked hard on controlling other pub operating costs, which were 0.5% lower than the prior year, despite continuing to invest in staff development and marketing initiatives, particularly social media. A variety of strategies were implemented to improve recruitment, training, reward, recognition, internal progression and retention of our pub teams. Under the guidance of our new Group Head of Pub Operations, the central operations team was structured to most effectively deliver the Managed House operating plan.

We achieved good growth from investments in our pubs, improving the return on investment from our developments compared to the previous year. We undertook a number of substantial development schemes, including the Dock, Bowl, Windsor, Cwm Talwg, Pumphouse, Lord Nelson and Penhelig. We also continued to invest heavily in the fabric of our estate at a level similar to the previous year. We sold one pub in this division during the year, the Westgate, due to the level of investment required to redevelop this pub being outweighed by the relatively low financial benefit of doing so.

Profit contribution from the division was up 3% versus the previous year, driven by margin improvements in both food and liquor sales, benefits from reduced utility costs and a lower depreciation charge (reflecting the changes to property values), as well as the uplifts provided by successful developments from both the current and previous years.

#### **Coffee#1**

Total sales grew by 28% driven by new store openings. We opened 14 new stores taking the total to 70 at the year-end. However, like-for-like sales in the core estate grew by just 0.4%, which was significantly lower than the previous year and a little below the performance of the coffee market as a whole. This was mainly as a result of the softer market, but also an increase in competition affecting a number of our key stores and the team's focus on the higher number of new store openings during the year. We have reviewed the new store opening process and expect to slightly increase the speed of roll-out of new stores in the year ahead. We are constantly evolving the core offer and were delighted to win the title of 'Coffee Chain of the Year' at the Café Life Awards 2016 for the seventh time in eight years.

The gross profit margin for the coffee business improved by 0.3% and despite the growth in Coffee#1 and the increased resource required to support store openings in particular, costs were well controlled. However, we also experienced a challenge with payroll costs as a percentage of sales in this business, which led to a slight decrease in profit conversion. Profit contribution was 24% higher than the previous year, but was behind plan, mainly due to the lower level of sales compared to expectation, higher payroll costs, some store openings being later than expected and greater levels of maintenance costs than those planned.

The Board remains confident in the future potential of this business.

## **S.A. BRAIN & COMPANY LIMITED**

### **CHIEF EXECUTIVE'S REVIEW FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **Leased & Tenanted Houses**

Underlying sales across this division were down by just over 1%. However, performance was impacted during the year by the sale of a further 13 houses which the Board concluded had no viable future in our business, as well as expenditure on the maintenance of the pubs that we intend to retain. Rental income was adversely impacted by the disposals. This all meant that profit contribution from the division was in line with the prior year.

Following the major review of how we operate our Leased & Tenanted estate in the future and having now launched our new letting agreements, support packages, pricing and rental models, we are beginning to build real momentum in this division. We have prepared business plans with a number of our current and future tenanted partners and signed 13 new agreements during the year. We have also invested in six redevelopment schemes to embed the new agreements and early indications on performance are very encouraging.

In order for this strategy to be fully realised, we need to recruit more high quality tenants to improve retail standards and work with our partners in a different manner to the past.

#### **National Sales & Take Home**

By way of background to the year, within the beer market the rate of decline in volume in the national on-trade for all beers (including ales and lagers) was 2.1% compared to the previous year, with the GB ale market down by 2.9%. However, the decline in Wales is believed to be nearer 10%, which contributed to sales volumes of our own ales being down 6.5%. We have continued to focus on achieving higher margin across the mix of products that we sell. Volumes remain more challenging in the on-trade, particularly through Heineken and the independent free trade, where the significant market decline in smooth ales remains a major challenge. However, sales of The Rev. James have maintained strong momentum, being up over 20% on the previous year. The taking back of responsibility for Welsh wholesalers from Heineken has also gone to plan.

Volume through the brewery increased by 8%, mainly driven by additional contract brewing for Heineken. More streamlined processes put in place have continued to produce a good performance on all quality metrics and this was reflected in our beers receiving a number of awards across the year. Efficiency measures also reduced costs ahead of plan, which is a challenge given the increasing age of the plant. The Technical Services team continues to fulfil an important role supporting both the quality and cost efficient dispense of our beers across the on-trade.

Our marketing activity centred on effectively activating our continued sponsorship of the Welsh Rugby Union, including press and billboard advertising. We also gained a high degree of coverage and activation through being the Official Ale of the Football Association of Wales. This was clearly enhanced by the team's spectacular performance through the Euro 2016 tournament in France during the summer.

Performance of our cask beers has been enhanced by our seasonal range and the Brains Craft Brewery, allowing us to create some really interesting styles of beer that we are able to sell at premium prices. This was well illustrated by 'Phonics' which we brewed in collaboration with legendary Welsh band the Stereophonics. We have increased our focus on 'earned media' through creating a number of effective PR and social media stories. We also relaunched our new mobile-friendly website which focuses on our core brand purpose.

## **S.A. BRAIN & COMPANY LIMITED**

### **CHIEF EXECUTIVE'S REVIEW FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **Current Financial Year**

At the time of writing we are trading at a level which is close to our annual plan, with our underlying performance and current trading producing growth. Our like-for-like sales in Managed Houses are 2.2% up year to date, despite the comparison with the Rugby World Cup which took place during October 2015. The festive season produced strong trading at over 6% above last year. Sales across the core Leased & Tenanted estate are up by nearly 2% year to date. The pattern in Coffee#1 is similar with like-for-like sales currently up 2.2%. Our overall profit before tax performance is just up on last year, but behind plan at this stage.

In October 2016, we announced that we have entered into a partnership arrangement with Rightacres Property to redevelop our brewery site. The scheme, currently known as Central Quay, has the potential for up to 3m square feet of mixed-use development and will take a minimum of five years to complete. The Board judged that the partnership route was more likely to maximise value for the site over time when compared to an immediate sale. The priority now is to secure a site for and build our new brewery, offices and visitor attraction. An active search is currently underway and this process is likely to take a minimum of two years.

#### **Prospects**

We have a clear strategic plan in place which outlines our key priorities and the future financial position of the Company. We remain positive about the development of the business and are anticipating further significant growth. The key drivers, which everyone across the business are fully aware of, are improving underlying sales and profit conversion in Managed Houses, continuing the Coffee#1 store roll-out programme, delivering our new Tenanted model, rebuilding profitable volume in National Sales & Take Home and recruiting, developing and retaining our best people across the business.

However, in the short term, despite improved economic indicators as a whole, given current macroeconomic uncertainties, we expect consumer demand to remain subdued in 2017 and therefore have to assume that trading conditions will remain relatively benign. We have taken steps to address this in terms of restructuring the business to more effectively meet these conditions and our customers' needs. The plan for this year has been carefully constructed, taking account of prudent assumptions and with the initiatives we have in place, both to enhance sales and control our key areas of cost, we feel confident that we will produce a good level of profit growth by the year-end.

We will continue to take a long term view of the business, ensuring that the Company is ready to react to any market conditions that confront us. Customers continue to respond positively to the investments we are making and the offers presented across our estate. We are now increasingly exposed to the growing coffee market and are generating profit growth from our cask and craft beer brands. We will generate additional cash in the medium term from the development of our brewery site which will enable us to sustain increased levels of investment across the business. We therefore believe that the fundamentals of our business model remain appropriate despite the challenges that we face.

**J S Waddington**  
Chief Executive

**S.A. BRAIN & COMPANY LIMITED**

**COMPANY INFORMATION**

**DIRECTORS**

J F W Rhys \* *Chairman*  
J S Waddington *Chief Executive*  
D P Bonney *Commercial Director*  
M S Reed FCCA *Finance Director*  
C N Brain \*  
A G Arkley \*  
P J Wilson \*

*\* Non-Executive Director*

**COMPANY SECRETARY**

C N Brain

**REGISTERED NUMBER**

00052099

**REGISTERED OFFICE**

The Cardiff Brewery  
PO Box 53  
Crawshay Street  
Cardiff  
CF10 1SP

**INDEPENDENT AUDITORS**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
One Kingsway  
Cardiff  
CF10 3PW

**BANKERS**

Lloyds Bank Plc

HSBC Bank Plc

Royal Bank of Scotland Plc

**SOLICITORS**

Hugh James



## **S.A. BRAIN & COMPANY LIMITED**

### **GROUP STRATEGIC REPORT FOR THE YEAR ENDED 1 OCTOBER 2016**

The directors present the Strategic Report of S.A. Brain & Company Limited group (the "group") for the 53 weeks ended 1 October 2016.

#### **BUSINESS REVIEW**

A report of the group's performance during the year and future developments is given in the Chairman's Statement and Chief Executive's Review on pages 1 to 5.

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The directors consider that the principal risks and uncertainties for the business relate primarily to the performance of the UK (and specifically Welsh) economy, changes to excise duty and taxation, the accelerating decline in the national on-trade beer market and associated competition.

The directors will continually monitor the principal and other risks and uncertainties for the business. The directors will closely monitor business performance, including through the use of monthly key performance indicator reports, and will take appropriate action when required.

Further indicators are used at an operating division level as outlined in the Chairman's Statement and Chief Executive's Review on pages 1 to 5.

#### **KEY PERFORMANCE INDICATORS**

The directors use a number of key performance indicators to manage the business, examples of which are shown on page 8.

Further indicators are used at an operating division level as outlined in the Chairman's Statement and Chief Executive's Review on pages 1 to 5.

**S.A. BRAIN & COMPANY LIMITED**

**GROUP STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 1 OCTOBER 2016**

	1 October 2016 £000	26 September 2015 £000
<b>Profit and dividends</b>		
Turnover	135,404	126,772
Turnover increase	6.8 %	3.0 %
Net operating expenses	12,217	12,785
Operating profit before exceptional items	5,896	6,432
Operating profit	5,522	4,495
Total exceptional items (including profit on sale of fixed assets)	(374)	(1,937)
Profit for the financial year before exceptional items	4,008	645
Profit/(loss) for the financial year	3,634	(1,292)
Operating profit as a % of turnover	4.1 %	3.5 %
Operating profit before exceptional costs as a % of turnover	4.4 %	5.1 %
Adjusted EBITDA <sup>1</sup>	13,218	13,236
Adjusted EBITDA as % of turnover	9.8 %	10.4 %
Earnings per share £	259.79	(92.36)
Dividends paid per share £	1.66	1.66
<b>Balance Sheet</b>		
Tangible fixed assets	171,150	165,964
Net debt	80,026	65,889
Net assets	75,805	80,140
Net assets excluding pension deficit	89,345	90,170
Gearing	106.8 %	86.2 %
Adjusted gearing <sup>2</sup>	90.4 %	76.5 %

<sup>1</sup>Adjusted EBITDA is earnings before interest, tax, depreciation, goodwill amortisation and exceptional items.

<sup>2</sup>Adjusted net assets excluding pension deficit and adjusted gearing reflects adding back the pension scheme deficit.

This report was approved by the Board on 27 January 2017 and signed on its behalf by:



**J F W Rhys**  
Director

## **S.A. BRAIN & COMPANY LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 1 OCTOBER 2016**

The directors present their annual report and the audited consolidated financial statements of S.A. Brain & Company Limited group (the "group") and the financial statements of S.A. Brain & Company Limited (the "company") for the 53 weeks ended 1 October 2016.

### **PRINCIPAL ACTIVITIES**

The group carries on business as brewers, wine and spirit merchants, coffee retailers and licensed property owners and managers.

### **RESULTS AND DIVIDENDS**

The profit for the financial year amounted to £3,634,000 (2015: loss of £1,292,000).

Final dividends in respect of the 2014 financial year of £808,000, equivalent to 83p per share and interim dividends in respect of the 2015 financial year of £808,000, equivalent to 83p per share have been paid in the year (2015: £808,000 were paid, equivalent to 83p per share in respect of the final dividend for the 2013 financial year and £808,000 were paid, equivalent to 83p per share in respect of the interim dividend for the 2014 financial year).

Final dividends in respect of the 2015 financial year of £808,000, equivalent to 83p per share have not yet been paid but have been accrued for in these financial statements.

The Directors have proposed an interim and final dividend of 83p per share (totalling £1,616,000) for the year ended 1 October 2016. These dividends have not been accounted for within these financial statements as they have yet to be approved.

### **SECTIONS PRESENTED WITHIN THE CHAIRMAN'S STATEMENT AND CHIEF EXECUTIVE'S REVIEW**

The future developments of the group are discussed in the Chairman's Statement and Chief Executive's Review on pages 1 to 5.

### **DIRECTORS**

The directors who served during the year and up to the date of signing the financial statements were:

J F W Rhys  
J S Waddington  
D P Bonney  
M S Reed  
C N Brain  
A G Arkley  
P J Wilson

## **S.A. BRAIN & COMPANY LIMITED**

### **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **CORPORATE SOCIAL RESPONSIBILITY (CSR)**

The company remains committed to its corporate social responsibility and has maintained its best practice from previous years while also looking to improve its approach going forward.

We continue to support a range of brewery and pub industry initiatives to highlight the potential negative effects of the misuse of alcohol and are engaged with the Portman Group to ensure alcoholic products are always marketed to our customers responsibly. The company, including its pub managers, are also in regular contact with South Wales Police on their 'know the score – drink less, enjoy more' campaign.

The company's relationship with Wales-based Tenovus Cancer Care, its main charity partner, continues to go from strength-to-strength and with more than £75,000 raised to help the charity support cancer patients and their loved ones.

Environmental Responsibility remains an important part of our ethos at Coffee#1 and we have continued to demonstrate this in a number of ways including; the recycling of our coffee grounds, which we then offer to our customers for compost. Coffee#1 'sleeves for life' are made from up-cycled coffee sacks and support Remploy, who help people with disabilities find employment. We continue to use our Coffee#1 Keep Cups, an award-winning sustainable cup, which sits alongside our branded double-walled biodegradable cups with compostable PLA lids for our take away customers. We continue to reduce waste by rewrapping and recycling our menu boards and by using recycled napkins and stationery.

Coffee#1's Commitment to the Community continues by supporting local charities, which are helped through the Gingerbread Man scheme, where all profit is donated from the sale of each biscuit sold. It makes a huge difference to small local charities and touches the very heart of the community. Individual stores also support their local fundraisers.

Coffee#1 has also supported Macmillan Cancer Support since its infancy. This year, as well as supporting the popular coffee morning, we created a speciality drink, the MacMinty, and the profit made from this drink during September was donated to the cause.

The company's partnership with Cardiff Metropolitan University, Cardiff University and now Cardiff and Vale College helps to develop relevant skills with students for potential future employment within our sector. A number of the students we have supported have gone on to develop careers with the company. We have also developed a partnership with Coleg Y Cymoedd to develop catering apprenticeships.

We remain committed in our aim of more effective use of energy. The company is registered with the Energy Saving Opportunity Scheme where we continually identify and implement opportunities to reduce energy consumption. Our outlet managers and the wider business are set targets to reduce energy usage.

Our 'green' initiative, '2020 vision', targets both a reduction in carbon emissions from our vehicle fleet and reducing the amount of waste going to land fill. We follow the Carbon Trust best practice guidelines and since achieving our company car fleet emissions target in 2013 we have set a reduced target for 2017. We continue to offer the 'cycle to work' scheme as part of our flexible benefits package to encourage employees to consider more environmentally friendly modes of transport.

We continue to work towards reducing food and packaging waste generated by the business and partner with industry expert WRAP to drive improvement and environmental benefit. We are working to achieve collective targets to reduce overall food and associated packaging waste and any packaging being able to be recycled. This was part of the Courtauld 3 Agreement, an industry wide commitment to reduce packaging and supply chain waste, which ended during the year.

## **S.A. BRAIN & COMPANY LIMITED**

### **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **EMPLOYEE INVOLVEMENT**

The directors are fully cognisant of the need to make employees aware of, and involve them in, factors which influence the group's success. Through this knowledge and their direct influence employees are able to benefit from this success through greater job security, job satisfaction and receiving financial reward based on their contribution.

The main channels of communication are companywide communications delivered quarterly face-to-face and through video footage, dedicated communication sections on the company Intranet, departmental meetings, employee presentations and discussions via the Your Voice communication group.

The company's performance and future plans are just some of the aspects shared with these groups and with employees as a whole where the company actively encourages and promotes employee interaction and feedback at every stage.

We have enhanced the company's online learning platform, CPL, which further supports communication across our retail and coffee estates. The online leaver's questionnaire implemented during the year has provided valuable information to help retain current and future employees. We have also implemented an online survey for applicants to provide feedback to us to improve our systems and recruitment processes. Most recently the company has trialled a communication App via the online learning platform which will be rolled out across the business.

We continually strive to improve and enhance the flow of communication across the business, ensuring the opportunity for the dissemination of key information and two-way feedback. Recent focus groups have provided input into the proposals to improve our ability to attract and retain quality chef teams, enhance employee benefits, create organisational values and develop course content.

To allow early input and involvement in business decisions there is an employee communication forum called Your Voice where elected representatives from every area of the business meet with senior managers to discuss matters of mutual interest and ideas for business growth.

The company's appraisal system continues to operate and includes objectives to ensure that all team member annual reviews correlate with the company mission and the factors that are critical to the ongoing success of the business. This process also identifies training requirements and an increased number of training courses were undertaken during the year to develop and enhance employee skills.

Further to this the company launched its values and behavioural framework to ensure that individuals have clarity on the unique identity of the company and its values. The behaviour framework articulates those behaviours that are important to contribute to the vision and culture and ultimately to deliver the company's objectives.

The company understands, and is committed to, its obligations to promote equality and inclusiveness. Full and fair consideration has been, and will always be, given to employment applications from disabled persons having regard to their particular aptitudes and abilities. If an appropriate vacancy is available then, where practicable, arrangements will be made to continue employment of an employee who has become disabled. Disabled employees are given fair consideration for training, career development and promotion. The belief is borne out by our approach to recruitment, promotion and training where all prospective applicants and current employees are judged on their merits. Equality and Diversity training has been developed and implemented across the group. This is further supported by a dedicated recruitment team and an enhanced set of policies and procedures.

We are committed to our social responsibilities and support activities that allow us to engage with our communities particularly through our partnership with charities voted for by the Your Voice group. The focus on our charity partnership in the last twelve months has provided an exceptional opportunity to further develop the "one team" culture across the group. At the end of the second year of the partnership an array of events and challenges have brought life to this partnership with a large amount of money raised for those in need.

## **S.A. BRAIN & COMPANY LIMITED**

### **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **PAYMENT OF CREDITORS**

It is the group's policy, in respect of its suppliers, to agree the terms of payment with each supplier as appropriate. Otherwise the company's standard settlement terms are the end of the calendar month following the supplier's invoice date. At 1 October 2016 the group's creditor days, compared to the value of suppliers' invoices received in the year was 32 (2015: 29).

#### **TREASURY POLICIES**

The company has a small Treasury team consisting of the Finance Director and Group Financial Controller.

The objectives of the Treasury team are to manage the group's financial risk, secure cost effective funding for the group's operations and to minimise the adverse effects of fluctuations in the financial markets on the value of the group's financial assets and liabilities, on reported profitability and on cash flows of the group.

The group finances its activities with a combination of cumulative preference shares, cash and secured bank borrowings as disclosed in note 25. Working capital is financed through revolving credit facilities and cash. Other financial assets and liabilities, such as trade receivables and payables, arise directly from the group's operating activities. The group also enters into limited interest rate swaps in order to manage interest rate risk arising from the group's operations. The group does not trade in financial instruments.

##### **Interest rate risk**

The group's policy is to manage its cost of borrowings using a mixture of fixed and variable interest rates. Fixed rates do not expose the group to cash flow interest rate risk, but do not enjoy a reduction in borrowing costs in markets where rates are falling. On the other hand, floating rate borrowings expose the group to cash flow risk following rises in interest rates.

##### **Foreign currency risk**

The group buys a limited amount of goods and services denominated in non-sterling currencies, principally Euros. The levels of these purchases are such that the directors do not consider the group to be exposed to significant foreign currency risk.

#### **DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the Group Strategic Report, the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies for the group's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

## **S.A. BRAIN & COMPANY LIMITED**

### **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **DIRECTORS' RESPONSIBILITIES STATEMENT (continued)**

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **DIRECTORS' INDEMNITIES**

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance.

#### **DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company and the group's auditors are unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company and the group's auditors are aware of that information.

#### **INDEPENDENT AUDITORS**

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the Board on 27 January 2017 and signed on its behalf by:



**J F W Rhys**  
Director

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF S.A. BRAIN & COMPANY LIMITED**

**Report on the financial statements**

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**Our opinion**

In our opinion, S.A. Brain & Company Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 1 October 2016 and of the group's profit and cash flows for the year then ended;
  - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
  - have been prepared in accordance with the requirements of the Companies Act 2006.
- 

**What we have audited**

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Consolidated and Company Balance Sheet as at 1 October 2016;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated and Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice), and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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**Opinion on other matter prescribed by the Companies Act 2006**

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In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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**Other matters on which we are required to report by exception**

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**Adequacy of accounting records and information and explanations received**

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

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

We have no exceptions to report arising from this responsibility.

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**Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF S.A. BRAIN & COMPANY LIMITED**

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**Responsibilities for the financial statements and the audit**

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**Our responsibilities and those of the directors**

As explained more fully in the Directors' Responsibilities Statement set out on pages 12 and 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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**What an audit of financial statements involves**

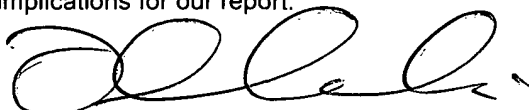
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



**Jason Clarke (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cardiff

Date: 27 January 2017

**S.A. BRAIN & COMPANY LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 1 OCTOBER 2016**

	Note	2016 £000	2015 £000
<b>TURNOVER</b>	5	<b>135,404</b>	126,772
Cost of sales		<b>(117,665)</b>	(109,492)
<b>GROSS PROFIT</b>		<b>17,739</b>	17,280
Distribution costs		<b>(3,158)</b>	(3,245)
Administrative expenses (excluding exceptionals)		<b>(8,809)</b>	(8,047)
Exceptional administrative expenses	6	<b>(374)</b>	(1,937)
Other operating income	7	<b>124</b>	444
<b>OPERATING PROFIT</b>	8	<b>5,522</b>	4,495
Interest receivable and similar income	12	<b>147</b>	-
Interest payable and similar charges	13	<b>(2,070)</b>	(4,232)
Other finance expense	14	<b>(390)</b>	(460)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>3,209</b>	(197)
Tax on profit/(loss) on ordinary activities	15	<b>425</b>	(1,095)
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>		<b>3,634</b>	(1,292)
Actuarial (losses)/gains on defined benefit pension scheme		<b>(4,330)</b>	1,210
Movement of deferred tax relating to pension surplus		<b>(435)</b>	242
Change in value of cash flow hedge		<b>(1,913)</b>	(200)
Deferred tax credit on change in value of cash flow hedge		<b>325</b>	40
<b>OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE FINANCIAL YEAR</b>		<b>(6,353)</b>	1,292
<b>TOTAL COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR</b>		<b>(2,719)</b>	-

The notes on pages 27 to 62 form part of these financial statements.

**S.A. BRAIN & COMPANY LIMITED**  
**REGISTERED NUMBER: 00052099**

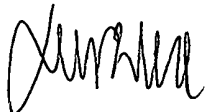
**CONSOLIDATED BALANCE SHEET**  
**AS AT 1 OCTOBER 2016**

		1 October 2016 £000	1 October 2016 £000	26 September 2015 £000	26 September 2015 £000
	Note				
<b>FIXED ASSETS</b>					
Intangible assets	18		6,261		6,683
Tangible assets	19		171,150		165,964
Investments	20		816		811
			<u>178,227</u>		<u>173,458</u>
<b>CURRENT ASSETS</b>					
Stocks	21	3,522		4,056	
Debtors	22	9,798		12,865	
Cash at bank and in hand	23	2,045		4,212	
		<u>15,365</u>		<u>21,133</u>	
<b>CREDITORS: amounts falling due within one year</b>	24	(15,711)		(19,433)	
			<u>(346)</u>		<u>1,700</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>					
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>177,881</u>		<u>175,158</u>
<b>CREDITORS: amounts falling due after more than one year</b>	25		(83,984)		(77,507)
<b>PROVISIONS FOR LIABILITIES</b>					
Deferred taxation	27	(280)		(633)	
Other provisions	28	(1,230)		(1,856)	
			<u>(1,510)</u>		<u>(2,489)</u>
Accruals and deferred income	29		(3,042)		(4,992)
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>			<u>89,345</u>		<u>90,170</u>
Pension liability	32		(13,540)		(10,030)
<b>NET ASSETS</b>			<u>75,805</u>		<u>80,140</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	30		974		974
Cash flow hedging reserve	31		(1,588)		(5,925)
Other reserves	31		22,479		22,479
Profit and loss account	31		53,940		62,612
<b>TOTAL SHAREHOLDERS' FUNDS</b>			<u>75,805</u>		<u>80,140</u>

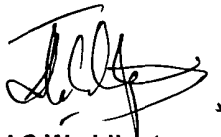
**S.A. BRAIN & COMPANY LIMITED**  
**REGISTERED NUMBER: 00052099**

**CONSOLIDATED BALANCE SHEET (CONTINUED)**  
**AS AT 1 OCTOBER 2016**

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 27 January 2017 by:



**J F W Rhys**  
Director



**J S Waddington**  
Director

The notes on pages 27 to 62 form part of these financial statements.

**S.A. BRAIN & COMPANY LIMITED**  
**REGISTERED NUMBER: 00052099**

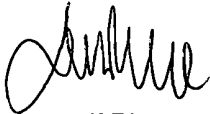
**COMPANY BALANCE SHEET**  
**AS AT 1 OCTOBER 2016**

	Note	1 October 2016 £000	1 October 2016 £000	26 September 2015 £000	26 September 2015 £000
<b>FIXED ASSETS</b>					
Tangible assets	19		159,139		156,585
Investments	20		22,993		22,982
			<u>182,132</u>		<u>179,567</u>
<b>CURRENT ASSETS</b>					
Stocks	21	3,326		3,913	
Debtors	22	9,641		12,039	
Cash at bank and in hand	23	1,531		3,108	
		<u>14,498</u>		<u>19,060</u>	
<b>CREDITORS: amounts falling due within one year</b>	24	(19,136)		(23,429)	
<b>NET CURRENT LIABILITIES</b>			(4,638)		(4,369)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>177,494</u>		<u>175,198</u>
<b>CREDITORS: amounts falling due after more than one year</b>	25		(83,272)		(76,795)
<b>PROVISIONS FOR LIABILITIES</b>					
Deferred taxation	27	-		(183)	
Other provisions	28	(925)		(1,484)	
			<u>(925)</u>	<u>(1,667)</u>	
Accruals and deferred income	29		(2,817)		(4,495)
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>			<u>90,480</u>		<u>92,241</u>
Pension liability	32		(13,540)		(10,030)
<b>NET ASSETS</b>			<u>76,940</u>		<u>82,211</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	30		974		974
Cash flow hedging reserve	31		(1,588)		(5,925)
Other reserves	31		22,479		22,479
Profit and loss account	31		55,075		64,683
<b>TOTAL SHAREHOLDERS' FUNDS</b>			<u>76,940</u>		<u>82,211</u>

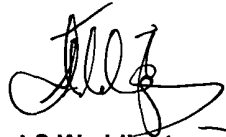
**S.A. BRAIN & COMPANY LIMITED**  
**REGISTERED NUMBER: 00052099**

**COMPANY BALANCE SHEET (CONTINUED)**  
**AS AT 1 OCTOBER 2016**

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 27 January 2017 by:



**J F W Rhys**  
Director



**J S Waddington**  
Director

The notes on pages 27 to 62 form part of these financial statements.

**S.A. BRAIN & COMPANY LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 1 OCTOBER 2016**

	Called up share capital	Cash flow hedging reserve	Other reserves	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000
At 27 September 2015	974	(5,925)	22,479	62,612	80,140
<b>COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR</b>					
Profit for the financial year	-	-	-	3,634	3,634
Actuarial losses on pension scheme, net of tax	-	-	-	(4,765)	(4,765)
Transfer on settlement of cash flow hedge, net of deferred tax	-	5,925	-	(5,925)	-
Recognition of cash flow hedge	-	(1,913)	-	-	(1,913)
Deferred tax credit on change in value of cash flow hedge	-	325	-	-	325
<b>OTHER COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR</b>	-	4,337	-	(10,690)	(6,353)
<b>TOTAL COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR</b>	-	4,337	-	(7,056)	(2,719)
<b>CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS</b>					
Dividends declared and paid	-	-	-	(1,616)	(1,616)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	-	-	-	(1,616)	(1,616)
<b>AT 1 OCTOBER 2016</b>	<b>974</b>	<b>(1,588)</b>	<b>22,479</b>	<b>53,940</b>	<b>75,805</b>

The notes on pages 27 to 62 form part of these financial statements.

**S.A. BRAIN & COMPANY LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 26 SEPTEMBER 2015**

	Called up share capital	Cash flow hedging reserve	Other reserves	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000
At 28 September 2014	974	(5,765)	22,479	64,068	81,756
<b>COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR</b>					
Loss for the financial year	-	-	-	(1,292)	(1,292)
Actuarial gains on pension scheme, net of tax	-	-	-	1,452	1,452
Change in value of cash flow hedge	-	(200)	-	-	(200)
Deferred tax credit on change in value of cash flow hedge	-	40	-	-	40
<b>OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>	-	(160)	-	1,452	1,292
<b>TOTAL COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR</b>	-	(160)	-	160	-
<b>CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS</b>					
Dividends declared and paid	-	-	-	(808)	(808)
Dividends declared but not paid	-	-	-	(808)	(808)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	-	-	-	(1,616)	(1,616)
<b>AT 26 SEPTEMBER 2015</b>	<b>974</b>	<b>(5,925)</b>	<b>22,479</b>	<b>62,612</b>	<b>80,140</b>

The notes on pages 27 to 62 form part of these financial statements.



**S.A. BRAIN & COMPANY LIMITED**

**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 1 OCTOBER 2016**

	Called up share capital	Cash flow hedging reserve	Other reserves	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000
At 27 September 2015	974	(5,925)	22,479	64,683	82,211
<b>COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR</b>					
Profit for the financial year	-	-	-	2,698	2,698
Actuarial losses on pension scheme, net of tax	-	-	-	(4,765)	(4,765)
Transfer on settlement of cash flow hedge, net of deferred tax	-	5,925	-	(5,925)	-
Recognition of cash flow hedge	-	(1,913)	-	-	(1,913)
Deferred tax credit on change in value of cash flow hedge	-	325	-	-	325
<b>OTHER COMPREHENSIVE EXPENSE FOR THE YEAR</b>	-	4,337	-	(10,690)	(6,353)
<b>TOTAL COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR</b>	-	4,337	-	(7,992)	(3,655)
<b>CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS</b>					
Dividends declared and paid	-	-	-	(1,616)	(1,616)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	-	-	-	(1,616)	(1,616)
<b>AT 1 OCTOBER 2016</b>	<b>974</b>	<b>(1,588)</b>	<b>22,479</b>	<b>55,075</b>	<b>76,940</b>

The notes on pages 27 to 62 form part of these financial statements.

**S.A. BRAIN & COMPANY LIMITED**

**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 26 SEPTEMBER 2015**

	Called up share capital	Cash flow hedging reserve	Other reserves	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000
At 28 September 2014	974	(5,765)	22,479	66,829	84,517
<b>COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR</b>					
Loss for the financial year	-	-	-	(1,982)	(1,982)
Actuarial gains on pension scheme, net of tax	-	-	-	1,452	1,452
Change in value of cash flow hedge	-	(200)	-	-	(200)
Deferred tax credit on change in value of cash flow hedge	-	40	-	-	40
<b>OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>	-	(160)	-	1,452	1,292
<b>TOTAL COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR</b>	-	(160)	-	(530)	(690)
<b>CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS</b>					
Dividends declared and paid	-	-	-	(808)	(808)
Dividends declared but not paid	-	-	-	(808)	(808)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	-	-	-	(1,616)	(1,616)
<b>AT 26 SEPTEMBER 2015</b>	<b>974</b>	<b>(5,925)</b>	<b>22,479</b>	<b>64,683</b>	<b>82,211</b>

The notes on pages 27 to 62 form part of these financial statements.

**S.A. BRAIN & COMPANY LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

	<b>1 October 2016 £000</b>	<b>26 September 2015 £000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(loss) for the financial year	3,634	(1,292)
<b>ADJUSTMENTS FOR:</b>		
Interest receivable	(147)	-
Interest payable	2,070	4,232
Other finance income	390	460
Taxation charge	(425)	1,095
Profit on disposal of tangible assets	(188)	(169)
Amortisation of intangible assets	422	431
Depreciation of tangible assets	6,910	6,373
Impairments of fixed assets	-	1,256
Decrease/(increase) in stocks	534	(221)
Decrease/(increase) in debtors	3,132	(3,340)
(Decrease)/increase in creditors	(3,256)	1,419
Decrease in provisions	(626)	(70)
(Decrease)/increase in accruals and deferred income	(1,950)	809
Difference between pension charge and cash contributions	(1,210)	(1,070)
Corporation tax paid	(569)	(124)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>8,721</b>	<b>9,789</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Purchase of tangible fixed assets	(14,543)	(8,993)
Sale of tangible fixed assets	2,635	6,510
Interest received	147	-
Trade loan repayments	-	8
Trade loans additions	(5)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(11,766)</b>	<b>(2,475)</b>

**S.A. BRAIN & COMPANY LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED 1 OCTOBER 2016**

	<b>1 October 2016 £000</b>	<b>26 September 2015 £000</b>
<b>CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>		
New secured loans	19,200	68,001
Repayment of loans	(7,000)	(65,000)
Dividends paid	(1,616)	(1,616)
Interest paid	(1,714)	(3,734)
Issue costs of new bank loan	(315)	(213)
Preference share dividends paid to shareholders	(164)	(164)
Preference share dividends paid to minority interests	(107)	(107)
Buyout of interest rate SWAP derivatives	(7,406)	-
<b>NET CASH FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>878</b>	<b>(2,833)</b>
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,167)</b>	<b>4,481</b>
Cash and cash equivalents at beginning of year	4,212	(269)
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	<b>2,045</b>	<b>4,212</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR COMPRISE:</b>		
Cash at bank and in hand	2,045	4,212

## **S.A. BRAIN & COMPANY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **1. GENERAL INFORMATION**

S A Brain & Company Limited (the "company") and its subsidiaries (together the "group") are principally engaged in the business as brewers, wine and spirit merchants, coffee retailers and licensed property owners and managers.

The company is a private company limited by shares and is incorporated and domiciled in England and Wales. The address of its registered office is: The Cardiff Brewery, PO Box 53, Crawshay Street, Cardiff, CF10 1SP.

#### **2. STATEMENT OF COMPLIANCE**

The group and individual financial statements of S A Brain & Company Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

#### **3. ACCOUNTING POLICIES**

##### **3.1 Basis of preparation of financial statements**

The financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain assets and liabilities and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 is given in note 37.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires group management to exercise judgment in applying the company's accounting policies (see note 4).

The company has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual profit and loss account.

The following principal accounting policies have been applied consistently throughout the year:

## **S.A. BRAIN & COMPANY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **3. ACCOUNTING POLICIES (CONTINUED)**

##### **3.2 Basis of consolidation**

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets and liabilities acquired are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the group.

The financial statements of the group consolidate the results and financial position of its subsidiary undertakings, being Coffee #1 Limited, Crown Buckley Limited, Crown Brewery Plc, Crown Buckley Taverns Limited, Filbuk 313 Limited, Brain Crown Buckley Limited, The Good Pub Company Limited, William Stedman Limited, Laing Holdings Limited, Groovebrick Limited, Ablemade Limited, S A Brain & Company Ventures Limited, S.A.B Property Company Limited and The Bowl Inn Limited.

##### **3.3 Turnover**

Turnover comprises net retail sales including contract brewing and packaging fees, property rental income associated with the tenanted estate and income from gaming machines and vending machines. Turnover is stated after relevant discounts and is exclusive of Value Added Tax. Turnover is also stated after excise duty relating to the brewing and packaging of certain products. Retail turnover and contract packaging fees are all recognised on dispatch or sale of the products to the customer. Property rental income, gaming and vending machine income is recognised on an accrual basis.

##### **3.4 Intangible assets**

###### **Goodwill**

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, Goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Consolidated Statement of Comprehensive Income over its useful economic life of 20 years, which is based on forecasts of future demand in the acquired companies.

## S.A. BRAIN & COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016

#### 3. ACCOUNTING POLICIES (CONTINUED)

##### 3.5 Tangible assets

Tangible assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

The group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

Depreciation is provided on the following basis:

Freehold land	- Not depreciated
Freehold buildings	- Over 50 years on a straight line basis
Long term leasehold property	- Coffee shops over 10 years or term of lease if shorter, other properties over term of lease on a straight line basis
Short term leasehold property	- Over term of lease on a straight line basis
Plant and machinery	- Over periods of 5 to 10 years on a combination of straight line and reducing balance

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Income.

On transition to FRS 102 the company has applied the transitional arrangements of Section 35 of FRS 102 and used a valuation on the date of transition as the deemed cost for its freehold buildings. Property is now being depreciated over the remainder of its useful life making an allowance for expected residual value.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**3. ACCOUNTING POLICIES (CONTINUED)**

**3.6 Impairment**

At each Balance Sheet date, the group considers whether there are any indicators that fixed assets may be impaired. Where such indicators exist, the group reviews the carrying amounts of the relevant fixed assets to determine whether there is any evidence that those assets have suffered an impairment loss. If any such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the income-generating unit to which the asset belongs.

If the recoverable amount of an asset or income-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or income-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the Consolidated Statement of Comprehensive Income.

Recoverable amount is the higher of realisable value less costs to sell and value in use.

- Realisable value less costs to sell is the best estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. This estimate is determined on the basis of available market information taking into account specific circumstances.
- Value in use is assessed by estimating future cash flows that 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 for which the estimates of future cash flows have not been adjusted.

Where an impairment loss subsequently reverses the carrying amount of the asset or income-generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or income-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the Consolidated Statement of Comprehensive Income.

**3.7 Investments**

- (i) **Subsidiary undertakings** - Investments in subsidiaries are valued at cost less provision for any permanent diminution in value.
- (ii) **Trade loans** - Trade loans made to customers are included at cost less any provision for bad and doubtful debt and are amortised over their estimated useful economic lives unless repaid earlier.

**3.8 Stocks**

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each Balance Sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

**3.9 Operating lease income**

Income from properties under operating leases is recognised on a straight line basis over the life of the lease.



## **S.A. BRAIN & COMPANY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **3. ACCOUNTING POLICIES (CONTINUED)**

##### **3.10 Debtors**

Short term debtors are measured at transaction price, less any impairment.

##### **3.11 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

##### **3.12 Financial instruments**

The group enters into both basic and complex financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and derivatives.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an outright short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives, made up of interest rate swaps, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The company currently applies hedge accounting for interest rate derivatives.

## **S.A. BRAIN & COMPANY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **3. ACCOUNTING POLICIES (CONTINUED)**

##### **3.13 Creditors**

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

##### **3.14 Hedge accounting**

The group uses interest rate swaps to manage its exposure to cash flow risk on its bank loans. These derivatives are measured at fair value at each Balance Sheet date.

To the extent the cash flow hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in profit or loss for the year.

Gains and losses on the hedging instruments and the hedged items are recognised in other comprehensive income for the year.

##### **3.15 Finance costs**

Finance costs are charged to the Consolidated Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument, and are subsequently amortised over the life of the debt instrument.

##### **3.16 Dividends**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

##### **3.17 Operating leases**

Rentals paid under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the lease term.

## **S.A. BRAIN & COMPANY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **3. ACCOUNTING POLICIES (CONTINUED)**

##### **3.18 Pensions**

###### **Defined contribution pension plan**

The group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. Once the contributions have been paid the group has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the group in independently administered funds.

###### **Defined benefit pension plan**

The group operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Balance Sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the Balance Sheet date less the fair value of plan assets at the Balance Sheet date out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the group's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'actuarial losses/gains on defined benefit pension scheme'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- the increase in net pension benefit liability arising from employee service during the period; and
- the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as an 'other finance expense/income'.

##### **3.19 Interest income**

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

## **S.A. BRAIN & COMPANY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **3. ACCOUNTING POLICIES (CONTINUED)**

##### **3.20 Foreign currency translation**

###### **Functional and presentation currency**

The company's functional and presentational currency is GBP.

###### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Consolidated Statement of Comprehensive Income within 'interest receivable and similar income' or 'interest payable and similar charges'. All other foreign exchange gains and losses are presented in the Consolidated Statement of Comprehensive Income within 'administrative expenses'.

##### **3.21 Provisions for liabilities**

Provisions are made where an event has taken place that gives the group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Consolidated Statement of Comprehensive Income in the year that the group becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**3. ACCOUNTING POLICIES (CONTINUED)**

**3.22 Current and deferred taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Comprehensive Income, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date in the countries where the company and the group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

**3.23 Exceptional items**

Exceptional items are transactions that fall within the ordinary activities of the group but are presented separately due to their size or incidence.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**4. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**4.1 Judgements in applying accounting policies**

**(i) Exemptions on transition to FRS 102**

The company has elected to use a valuation of certain items of land and buildings made at the date of transition as the deemed cost on transition to FRS 102. The items are being depreciated from the date of transition (27 September 2014) in accordance with the company's accounting policies.

**4.2 Key sources of estimation uncertainty**

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**(i) Useful economic lives of tangible assets**

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 19 for the carrying amount of the property plant and equipment, and note 3.5 for the useful economic lives for each class of assets.

**(ii) Valuation of freehold properties**

Certain freehold properties owned by the company were revalued at the date of transition to FRS 102. This valuation was carried out by an independent valuer to their market value with reference to their trading performance. See notes 19 and 37 for details regarding the revaluation.

**(iii) Impairment of debtors**

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors, security and historical experience. See note 22 for the net carrying amount of the debtors and associated impairment provision.

**(iv) Uncertainty in provisions**

The company makes provision for onerous property leases and property dilapidations.

When calculating the onerous lease provision, the directors' estimate the net unrecovered costs during the remaining period of the leases. The unrecovered costs are included net of expected rental income from subletting the properties, and the inflows from the rental income that are included as part of the provision are estimated and uncertain. See note 28 for the carrying amount of the provision and its utilisation.

**(v) Defined benefit pension scheme**

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the Balance Sheet. The assumptions reflect historical experience and current trends. See note 32 for the disclosures relating to the defined benefit pension scheme.

## S.A. BRAIN & COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016

#### 5. TURNOVER

The whole of the turnover is attributable to its principal activities and is all considered to relate to sale of goods.

All turnover arose within the United Kingdom.

#### 6. EXCEPTIONAL ITEMS

	2016 £000	2015 £000
<b>Administrative expenses</b>		
Freehold property impairment (note a)	-	952
Restructuring costs (note b)	10	240
Provision for onerous leases (note c)	-	533
Exceptional write offs (note d)	552	381
Profit on sale of fixed assets (note e)	(188)	(169)
	<u>374</u>	<u>1,937</u>

a) **Freehold property impairment** - Freehold property impairment relates to anticipated losses on specific licensed properties that the Board are in the process of selling.

b) **Restructuring costs** - Restructuring costs in the prior year primarily related to redundancy costs associated with the restructuring of certain group operating and administrative functions.

c) **Provision for onerous leases** - The company increased the provision for onerous leases in 2015 relating to vacant warehouse property, that arose following the sale of the free trade business in 2009.

d) **Exceptional write offs** - The company has written off obsolete point of sale stock of £552,000 during the year. In the prior year the company impaired certain IT related fixed assets totalling £304,000 and wrote off obsolete point of sale stock of £77,000.

e) **Profit on sale of fixed assets** - The tax effect of the profit on sale of fixed assets was £Nil (2015: £Nil).

#### 7. OTHER OPERATING INCOME

	2016 £000	2015 £000
Other operating income	<u>124</u>	<u>444</u>

Other operating income in 2016 is comprised of £83k of unlicensed income from betting offices and £41k miscellaneous income which primarily consists of contributions towards branding and marketing from suppliers.

Other operating income in 2015 primarily related to certain commercial income related to minimum purchase obligations within certain customer agreements and the refund of VAT by HMRC.

## S.A. BRAIN & COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016

#### 8. OPERATING PROFIT

The operating profit is stated after charging:

	2016 £000	2015 £000
Depreciation of tangible fixed assets	6,910	6,373
Impairment of tangible fixed assets	-	1,256
Amortisation of intangible assets, including goodwill	422	431
Operating lease rentals	3,016	2,181
Impairment of trade debtors	88	90
	<u>88</u>	<u>90</u>

#### 9. AUDITORS' REMUNERATION

	2016 £000	2015 £000
Fees payable to the group's auditors and its associates for the audit of the group's annual financial statements	58	57
Fees payable to the group's auditors and its associates in respect of:		
The audit of the parent company financial statements	36	37
Other services relating to taxation	-	4
All other services	21	5
	<u>21</u>	<u>5</u>

#### 10. EMPLOYEES

Staff costs, including directors' remuneration, were as follows:

	2016 £000	2015 £000
Wages and salaries	33,396	30,104
Social security costs	2,199	1,875
Other pension costs	771	768
	<u>36,366</u>	<u>32,747</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2016 Number	2015 Number
Retail operations	2,249	2,124
Brewing, sales and administration	188	180
	<u>2,437</u>	<u>2,304</u>

The average number of full time equivalent employees during the year was 1,738 (2015: 1,795).



## **S.A. BRAIN & COMPANY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **11. DIRECTORS' REMUNERATION**

The group's remuneration policy is to ensure that the remuneration of directors is sufficiently competitive to enable the group to retain and motivate existing directors and attract high quality performers in the future. The group undertakes an annual review of market practice and considers the remuneration levels of directors in companies of similar size within the industry sector.

	<b>2016 £000</b>	<b>2015 £000</b>
Directors' emoluments	<b>941</b>	986
Company contributions to defined contribution pension schemes	<b>15</b>	15
Company contributions to defined benefit pension schemes	<b>109</b>	89
	<b><u>1,065</u></b>	<u>1,090</u>

During the year retirement benefits were accruing to 4 directors (2015: 4) in respect of defined benefit pension schemes.

The highest paid director received remuneration of £344,000 (2015: £372,000).

The total accrued pension provision of the highest paid director at 1 October 2016 amounted to £34,000 (2015: £33,000).

The amount of the accrued lump sum in respect of the highest paid director at 1 October 2016 amounted to £152,000 (2015: £144,000).

#### **Key management personnel**

The key management personnel are considered to be the same as the directors, and as such the compensation payable to the key management personnel is disclosed above.

#### **12. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2016 £000</b>	<b>2015 £000</b>
Other interest receivable	<b>147</b>	-

#### **13. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2016 £000</b>	<b>2015 £000</b>
On bank loans	<b>1,799</b>	3,961
Preference share dividends	<b>271</b>	271
	<b><u>2,070</u></b>	<u>4,232</u>



**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**14. OTHER FINANCE EXPENSE**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Interest income on pension scheme assets	<b>(2,930)</b>	<b>(2,900)</b>
Net interest on net defined benefit liability	<b>3,320</b>	<b>3,360</b>
	<b>390</b>	<b>460</b>

**15. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<b>CORPORATION TAX</b>		
Current tax on profit/(loss) for the year	<b>-</b>	<b>344</b>
Adjustments in respect of prior years	<b>38</b>	<b>14</b>
<b>TOTAL CURRENT TAX</b>	<b>38</b>	<b>358</b>
<b>DEFERRED TAX</b>		
Origination and reversal of timing differences	<b>(227)</b>	<b>660</b>
Adjustments in respect of prior years	<b>(129)</b>	<b>87</b>
Change in tax rates	<b>(107)</b>	<b>(10)</b>
<b>TOTAL DEFERRED TAX</b>	<b>(463)</b>	<b>737</b>
<b>TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES</b>	<b>(425)</b>	<b>1,095</b>

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**15. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES (CONTINUED)**

**FACTORS AFFECTING TAX CHARGE FOR THE YEAR**

The tax assessed for the year is lower than (2015: higher than) the standard rate of corporation tax in the UK of 20.0% (2015: 20.5%). The differences are explained below:

	<b>2016 £000</b>	<b>2015 £000</b>
Profit/(loss) on ordinary activities before tax	<b>3,209</b>	<b>(197)</b>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.0% (2015: 20.5%)	<b>642</b>	<b>(40)</b>
<b>EFFECTS OF:</b>		
Permanent differences	<b>282</b>	<b>373</b>
Adjustments in respect of prior years	<b>(91)</b>	<b>101</b>
Pension actuarial movement through Consolidated Statement of Comprehensive Income	<b>(1,301)</b>	<b>490</b>
Depreciation and loss on disposal on assets ineligible for capital allowances	<b>149</b>	<b>181</b>
Change in tax rates	<b>(106)</b>	<b>(10)</b>
<b>TOTAL TAX (CREDIT)/CHARGE FOR THE YEAR</b>	<b>(425)</b>	<b>1,095</b>

**FACTORS THAT MAY AFFECT FUTURE TAX CHARGES**

The July 2015 Budget Statement announced changes to the UK Corporation tax regime which will reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020 and further change was announced in the March 2016 budget to further reduce the rate to 17% from 1 April 2020. These changes have been substantively enacted at the year end date and the deferred tax has therefore been calculated using a rate of 17%.

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**16. DIVIDENDS**

	<b>1 October 2016 £000</b>	26 September 2015 £000
<b>Equity - Ordinary - Paid</b>		
Interim paid 83p (2015: 83p) per £1 share	808	808
<b>Equity - Ordinary - Declared but not paid</b>		
Final dividend accrued 83p (2015: 83p) per £1 share	<u>808</u>	<u>808</u>

The directors propose an interim dividend of 83p per share that totals £808,000 for the year ended 1 October 2016 (2015: 83p per share that totals £808,000). The directors propose a final dividend of 83p per share that totals £808,000 for the year ended 1 October 2016 (2015: 83p per share that totals £808,000). These dividends have not been accounted for within the current year financial statements as they have yet to be approved.

**17. PARENT COMPANY PROFIT FOR THE YEAR**

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements. The profit of the parent company for the financial year was £2,698,000 (2015: loss £1,982,000).

**18. INTANGIBLE ASSETS**

**Group**

	<b>Goodwill £000</b>
<b>COST</b>	
At 27 September 2015	<u>8,894</u>
At 1 October 2016	<u>8,894</u>
<b>Accumulated amortisation</b>	
At 27 September 2015	2,211
Charge for the year	<u>422</u>
At 1 October 2016	<u>2,633</u>
<b>NET BOOK VALUE</b>	
At 1 October 2016	<u>6,261</u>
At 26 September 2015	<u>6,683</u>

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**19. TANGIBLE ASSETS**

**Group**

	<b>Freehold land and buildings £000</b>	<b>Long term leasehold property £000</b>	<b>Short term leasehold property £000</b>	<b>Plant and machinery £000</b>	<b>Total £000</b>
<b>COST</b>					
At 27 September 2015	131,697	11,900	9,362	72,043	225,002
Additions	939	337	975	12,292	14,543
Disposals	(2,449)	(5)	(18)	(2,835)	(5,307)
At 1 October 2016	<u>130,187</u>	<u>12,232</u>	<u>10,319</u>	<u>81,500</u>	<u>234,238</u>
<b>ACCUMULATED DEPRECIATION</b>					
At 27 September 2015	3,498	3,695	3,237	48,608	59,038
Charge for the year	496	156	701	5,557	6,910
Disposals	(213)	(5)	(18)	(2,624)	(2,860)
At 1 October 2016	<u>3,781</u>	<u>3,846</u>	<u>3,920</u>	<u>51,541</u>	<u>63,088</u>
<b>NET BOOK VALUE</b>					
At 1 October 2016	<u>126,406</u>	<u>8,386</u>	<u>6,399</u>	<u>29,959</u>	<u>171,150</u>
At 26 September 2015	<u>128,199</u>	<u>8,205</u>	<u>6,125</u>	<u>23,435</u>	<u>165,964</u>

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
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**Company**

	<b>Freehold land and buildings £000</b>	<b>Long term leasehold property £000</b>	<b>Short term leasehold property £000</b>	<b>Plant and machinery £000</b>	<b>Total £000</b>
<b>COST</b>					
At 27 September 2015	131,697	11,900	5,914	62,822	212,333
Additions	939	337	2	8,944	10,222
Disposals	(2,449)	(5)	(17)	(2,690)	(5,161)
At 1 October 2016	<u>130,187</u>	<u>12,232</u>	<u>5,899</u>	<u>69,076</u>	<u>217,394</u>
<b>ACCUMULATED DEPRECIATION</b>					
At 27 September 2015	3,498	3,695	2,537	46,018	55,748
Charge for the year	496	156	258	4,360	5,270
Disposals	(213)	(5)	(17)	(2,528)	(2,763)
At 1 October 2016	<u>3,781</u>	<u>3,846</u>	<u>2,778</u>	<u>47,850</u>	<u>58,255</u>
<b>NET BOOK VALUE</b>					
At 1 October 2016	<u>126,406</u>	<u>8,386</u>	<u>3,121</u>	<u>21,226</u>	<u>159,139</u>
At 26 September 2015	<u>128,199</u>	<u>8,205</u>	<u>3,377</u>	<u>16,804</u>	<u>156,585</u>

The company applied the transitional arrangements of Section 35 of FRS 102 and used a valuation made at the date of transition as the deemed cost for its freehold property. The property is being depreciated over the remainder of its useful life.

Analysis of the revalued assets valued at the date of transition to FRS 102 using the deemed cost exemption:

	<b>1 October 2016 £000</b>	<b>26 September 2015 £000</b>
Historical cost equivalent	82,336	82,232
Revaluation	39,282	41,074
	<u>121,618</u>	<u>123,306</u>

The properties were revalued at the date of transition to FRS 102 by an independent valuer to their market value with reference to their trading performance.

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**20. INVESTMENTS**

**Group**

	<b>Trade loans £000</b>	<b>Other fixed asset investments £000</b>	<b>Total £000</b>
<b>COST OR VALUATION</b>			
At 27 September 2015	403	577	980
Additions	5	-	5
Amounts written off	(159)	-	(159)
At 1 October 2016	249	577	826
<b>PROVISION FOR DIMINUTION IN VALUE</b>			
At 27 September 2015	169	-	169
Amounts written off	(159)	-	(159)
At 1 October 2016	10	-	10
<b>NET BOOK VALUE</b>			
At 1 October 2016	239	577	816
At 26 September 2015	234	577	811

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**20. INVESTMENTS (CONTINUED)**

**Company**

	Trade loans £000	Investments in subsidiary companies £000	Other fixed asset investments £000	Total £000
<b>COST</b>				
At 27 September 2015	403	22,171	577	23,151
Additions	5	6	-	11
Amounts written off	(159)	-	-	(159)
At 1 October 2016	249	22,177	577	23,003
<b>PROVISION FOR DIMINUTION IN VALUE</b>				
At 27 September 2015	169	-	-	169
Amounts written off	(159)	-	-	(159)
At 1 October 2016	10	-	-	10
<b>NET BOOK VALUE</b>				
At 1 October 2016	239	22,177	577	22,993
At 26 September 2015	234	22,171	577	22,982

Details of the subsidiaries can be found under note 36.

Other fixed asset investments comprise 237,789 (2015: 237,789) ordinary shares of £1 each held at a cost of £551,000 (2015: £551,000) in The Welsh Whisky Company Limited, representing 5.3% (2015: 5.3%) of that company's equity share capital, and Welsh Rugby Union debentures, held at a cost of £26,000 (2015: £26,000). The directors believe that that carrying value of the investments is supported by their underlying net assets or by future projected cash flows.



## S.A. BRAIN & COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016

#### 21. STOCKS

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>1 October</b>	<b>26</b>	<b>1 October</b>	<b>26</b>
	<b>2016</b>	<b>September</b>	<b>2016</b>	<b>September</b>
	<b>£000</b>	<b>2015</b>	<b>£000</b>	<b>2015</b>
		<b>£000</b>		<b>£000</b>
Raw materials	636	1,177	636	1,177
Work in progress	445	378	445	378
Finished goods and goods for resale	2,441	2,501	2,245	2,358
	<b>3,522</b>	<b>4,056</b>	<b>3,326</b>	<b>3,913</b>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

#### 22. DEBTORS

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>1 October</b>	<b>26</b>	<b>1 October</b>	<b>26</b>
	<b>2016</b>	<b>September</b>	<b>2016</b>	<b>September</b>
	<b>£000</b>	<b>2015</b>	<b>£000</b>	<b>2015</b>
		<b>£000</b>		<b>£000</b>
Trade debtors	4,580	5,104	4,580	5,104
Corporation tax recoverable	65	-	701	10
Other debtors	210	3,224	209	3,216
Prepayments and accrued income	4,943	4,537	4,108	3,709
Deferred taxation	-	-	43	-
	<b>9,798</b>	<b>12,865</b>	<b>9,641</b>	<b>12,039</b>

Trade debtors is stated net of a provision for impairment of £543,000 (2015: £824,000).

#### 23. CASH AT BANK AND IN HAND

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>1 October</b>	<b>26</b>	<b>1 October</b>	<b>26</b>
	<b>2016</b>	<b>September</b>	<b>2016</b>	<b>September</b>
	<b>£000</b>	<b>2015</b>	<b>£000</b>	<b>2015</b>
		<b>£000</b>		<b>£000</b>
Cash at bank and in hand	2,045	4,212	1,531	3,108

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**24. CREDITORS: Amounts falling due within one year**

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>1 October</b>	<b>26</b>	<b>1 October</b>	<b>26</b>
	<b>2016</b>	<b>September</b>	<b>2016</b>	<b>September</b>
	<b>£000</b>	<b>2015</b>	<b>£000</b>	<b>2015</b>
		<b>£000</b>		<b>£000</b>
Trade creditors	5,670	8,278	4,871	6,918
Amounts owed to group undertakings	-	-	5,925	7,504
Corporation tax	-	466	-	-
Other creditors	2,586	3,249	1,751	2,404
Other taxation and social security	6,647	6,632	5,781	5,795
Proposed dividend	808	808	808	808
	<b>15,711</b>	<b>19,433</b>	<b>19,136</b>	<b>23,429</b>

Amounts due to subsidiary undertakings are unsecured, interest free and repayable on demand.

**25. CREDITORS: Amounts falling due after more than one year**

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>1 October</b>	<b>26</b>	<b>1 October</b>	<b>26</b>
	<b>2016</b>	<b>September</b>	<b>2016</b>	<b>September</b>
	<b>£000</b>	<b>2015</b>	<b>£000</b>	<b>2015</b>
		<b>£000</b>		<b>£000</b>
Bank loans	79,758	67,788	79,758	67,788
Crown Buckley Limited preference shares of £1 each	712	712	-	-
Cumulative preference shares treated as debt	1,601	1,601	1,601	1,601
Financial instruments	1,913	7,406	1,913	7,406
	<b>83,984</b>	<b>77,507</b>	<b>83,272</b>	<b>76,795</b>

Disclosure of the terms and conditions attached to the non-equity Crown Buckley Limited preference shares and the cumulative preference shares is made in note 30.

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**25. CREDITORS: Amounts falling due after more than one year (continued)**

Included within the above are amounts falling due as follows:

	<b>Group 1 October 2016 £000</b>	<b>Group 26 September 2015 £000</b>	<b>Company 1 October 2016 £000</b>	<b>Company 26 September 2015 £000</b>
<b>AMOUNTS FALLING DUE 2-5 YEARS</b>				
Bank loans	<b>79,758</b>	67,788	<b>79,758</b>	67,788
<b>AMOUNTS FALLING DUE AFTER MORE THAN 5 YEARS</b>				
Crown Buckley Limited preference shares of £1 each	712	712	-	-
Cumulative preference shares treated as debt	<b>1,601</b>	1,601	<b>1,601</b>	1,601
	<b>2,313</b>	2,313	<b>1,601</b>	1,601
	<b>82,071</b>	70,101	<b>81,359</b>	69,389

**Bank loans**

The loan facility is fully repayable in 2021 and interest is payable at LIBOR plus a margin depending on the financial performance of the group. The financial performance is measured four times a year against agreed bank covenants.

All the bank loans are secured by a floating charge over the group's assets and undertakings.

Group and company bank loans are stated net of unamortised issue costs of £442,657 (2015: £226,517).

In the prior year the group had entered into certain interest rate swap transactions which have the effect of fixing interest rates as follows:

- £50,000,000 of borrowings at LIBOR plus 1.9% subject to an interest rate floor and cap, until September 2016. The mark to market value of the interest rate swap at 26 September 2015 was a liability of £873,970.
- £30,000,000 of borrowings at an interest rate of 5.15% between September 2016 and December 2021. The mark to market value of the interest rate swap was a liability of £5,164,719.

In the prior year, the group had also entered into certain interest rate caps which have the effect of limiting interest rates as follows:

- £50,000,000 of borrowings at an interest rate of 3.5% between September 2011 and September 2016. The mark to market value of the interest rate cap was £Nil.
- £50,000,000 of borrowings at an interest rate of 0.5% between September 2013 and September 2016. The mark to market value of the interest rate cap was an asset of £11,613.
- £100,000,000 of borrowings at an interest rate of 1.0% between September 2011 and September 2016. The mark to market value of the interest rate cap was a liability of £1,347,446.

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**25. CREDITORS: Amounts falling due after more than one year (continued)**

These transactions have been closed out during the year and new swap transactions have been entered into as a result of the refinancing discussed above. During 2015, a hedging loss of £200,000 was recognised in other comprehensive income for changes in the fair value of the interest rate swaps.

The new swap transactions had the effect of fixing interest rates as follows:

- £10,000,000 of borrowings at an interest rate of 1.55% between September 2016 and December 2021. The mark to market value of the interest rate swap was a liability of £582,600.
- £10,000,000 of borrowings at an interest rate of 1.55% between September 2016 and December 2021. The mark to market value of the interest rate swap was a liability of £582,600.
- £10,000,000 of borrowings at an interest rate of 1.69% between September 2016 and December 2022. The mark to market value of the interest rate swap was a liability of £747,711.

Cash flows on both the loan and the interest rate swaps are paid quarterly until 2021. During 2016, a hedging loss of £1,912,911 (2015: £Nil) was recognised in other comprehensive income on recognition of the fair value of the interest rate swaps.

**Preference shares**

Disclosure of the terms and conditions attached to the non-equity shares is made in note 30.

**26. FINANCIAL INSTRUMENTS**

	<b>Group 1 October 2016 £000</b>	<b>Group 26 September 2015 £000</b>	<b>Company 1 October 2016 £000</b>	<b>Company 26 September 2015 £000</b>
<b>FINANCIAL ASSETS</b>				
Financial assets that are debt instruments measured at amortised cost	<b>4,789</b>	<b>8,328</b>	<b>4,789</b>	<b>8,320</b>
<b>FINANCIAL LIABILITIES</b>				
Financial liabilities measured at amortised cost	<b>(94,093)</b>	<b>(87,223)</b>	<b>(97,447)</b>	<b>(91,313)</b>
Derivative financial instruments designated as hedges of variable interest rate risk	<b>(1,913)</b>	<b>(7,406)</b>	<b>(1,913)</b>	<b>(7,406)</b>

Financial assets measured at amortised cost comprise trade debtors and other debtors.

Financial liabilities measured at amortised cost comprise bank loans, trade creditors, amounts owed to group undertakings, other creditors, proposed dividends, preference shares and accruals.

Derivative financial instruments designated as hedges of variable interest rate risk comprise interest rate swaps. Details regarding these swaps are provided in note 25.

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**27. DEFERRED TAXATION**

**Group**

	<b>2016 £000</b>
At beginning of year	<b>633</b>
Charged to profit and loss	<b>(463)</b>
Credited to other comprehensive income	<b>110</b>
At end of year	<b>280</b>

**Company**

	<b>2016 £000</b>
At beginning of year	<b>183</b>
Charged to profit and loss	<b>(336)</b>
Credited to other comprehensive income	<b>110</b>
At end of year	<b>(43)</b>

The provision for deferred taxation is made up as follows:

	<b>Group 1 October 2016 £000</b>	<b>Group 26 September 2015 £000</b>	<b>Company 1 October 2016 £000</b>	<b>Company 26 September 2015 £000</b>
Accelerated capital allowances	<b>3,364</b>	4,156	<b>3,041</b>	3,706
Other timing differences	<b>(11)</b>	(13)	<b>(11)</b>	(13)
Utilised tax losses	<b>(446)</b>	(23)	<b>(446)</b>	(23)
Defined benefit pension scheme	<b>(2,302)</b>	(2,006)	<b>(2,302)</b>	(2,006)
Financial instruments	<b>(325)</b>	(1,481)	<b>(325)</b>	(1,481)
	<b>280</b>	633	<b>(43)</b>	183

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**28 OTHER PROVISIONS**

**Group**

	<b>Onerous lease provisions £000</b>	<b>Property dilapidation £000</b>	<b>Total £000</b>
At 27 September 2015	1,484	372	1,856
Utilised during the year	(559)	(67)	(626)
At 1 October 2016	<u>925</u>	<u>305</u>	<u>1,230</u>

**Company**

	<b>Onerous lease provisions £000</b>	<b>Total £000</b>
At 27 September 2015	1,484	1,484
Utilised during the year	(559)	(559)
At 1 October 2016	<u>925</u>	<u>925</u>

**Onerous property leases**

Following the disposal of the free trade business in 2009 and the subsequent restructuring of the group's logistics operation certain leasehold warehouses have been vacated. The vacant property provision relates to the onerous leases associated with the vacated warehouses and represents the directors' estimate of the net unrecovered costs during the remaining period of the leases. The unrecovered costs are included net of expected rental income from subletting the properties, and these inflows are included as part of the provision are estimated and uncertain.

**Property dilapidation**

Property provisions relate to dilapidation obligations required under the terms of the leases of certain premises following the acquisition of Coffee #1 Limited. These costs will be incurred over the period of the leases.

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**29. ACCRUALS AND DEFERRED INCOME**

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>1 October</b>	<b>26</b>	<b>1 October</b>	<b>26</b>
	<b>2016</b>	<b>September</b>	<b>2016</b>	<b>September</b>
	<b>£000</b>	<b>2015</b>	<b>£000</b>	<b>2015</b>
		<b>£000</b>		<b>£000</b>
Accruals	<b>2,958</b>	4,787	<b>2,733</b>	4,290
Deferred income	<b>84</b>	205	<b>84</b>	205
	<b>3,042</b>	4,992	<b>2,817</b>	4,495

Deferred income relates to payments received in advance in respect of certain contractual arrangements for the supply of goods and services in the normal course of business.

**30. CALLED UP SHARE CAPITAL**

	<b>1 October</b>	<b>26</b>
	<b>2016</b>	<b>September</b>
	<b>£000</b>	<b>2015</b>
		<b>£000</b>
<b>Shares classified as capital</b>		
<b>Allotted, called up and fully paid</b>		
973,426 (2015: 973,426) ordinary shares of £1 (2015: £1) each	<b>974</b>	974
	<b>1 October</b>	<b>26</b>
	<b>2016</b>	<b>September</b>
	<b>£000</b>	<b>2015</b>
		<b>£000</b>
<b>Shares classified as debt</b>		
<b>Allotted, called up and fully paid</b>		
1,376,320 (2015: 1,376,320) 11% cumulative preference shares of £1 (2015: £1) each	<b>1,376</b>	1,376
22,500 (2015: 22,500) 4% cumulative preference shares of £10 (2015: £10) each	<b>225</b>	225
	<b>1,601</b>	1,601

## **S.A. BRAIN & COMPANY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **30. CALLED UP SHARE CAPITAL (continued)**

All preference shares are non-instalment debt.

##### **S.A. Brain & Company Limited preference shares**

###### **Rights to dividends**

- 4% cumulative preference shares of £10 each - 4% cumulative dividend payable half yearly on amount paid up.
- 11% second cumulative preference shares of £1 each - 11% cumulative dividend payable half yearly on amount paid up.

###### **Rights to redemption**

- 4% cumulative preference shares of £10 each - none.
- 11% second cumulative preference shares of £1 each - none.

###### **Rights on winding up**

The assets of the company remaining after all liabilities and costs have been discharged are to be distributed in the event of a winding up as follows:

- Firstly, in paying to 4% preference shareholders any arrears of dividends;
- Secondly, in paying to 11% preference shareholders any arrears of dividends;
- Thirdly, in paying to 4% preference shareholders the amount paid up on their shares;
- Fourthly, in paying to 11% preference shareholders the amount paid up on their shares, including any premium;
- Fifthly, any balance of assets to be paid to ordinary shareholders in the proportion of shares held.

###### **Voting rights**

- 4% cumulative preference shares of £10 each - none.
- 11% second cumulative preference shares of £1 each - none.
- Ordinary shares of £1 each – full voting rights.

##### **Crown Buckley Limited 15 % "A" Preference Shares not held by S.A. Brain & Company Limited**

###### **Rights to dividend**

- 15% cumulative dividend, payable half yearly on amount paid up.

###### **Rights to redemption**

- Redeemable at the option of the company in certain circumstances.

###### **Rights on winding up**

- The rights to distribution in the event of a winding up (after all liabilities and costs have been discharged) in respect of any arrears of dividends and the amounts paid up on shares rank pari passu with the "B" preference shares (held by the company) and before the ordinary and preferred ordinary shares (held by the company).

###### **Voting rights**

- Right to vote at separate class meetings only.



**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**31. RESERVES**

**Cash flow hedging reserve**

The cash flow hedging reserve reflects all movements in the fair value of fully hedged swap derivatives.

**Other reserves**

Other reserves consist of Capital redemption reserves of £402,000 (2015: £402,000) and distributable property reserves of £22,077,000 (2015: £22,077,000).

**Profit and loss account**

The profit and loss account represents the accumulated profits, losses and distributions of the company.

## **S.A. BRAIN & COMPANY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **32. PENSION COMMITMENTS**

Pension costs amounted to £771,000 (2015: £768,000).

##### **Defined contribution**

The group operates a defined contribution section of the S.A. Brain & Company Limited Group Pension Scheme and the Crown Buckley Limited Pension Scheme. The assets of the defined contribution pension scheme are held separately from those of the group under independent administration. The pension cost charge for the scheme represents contributions payable by the group to the scheme in the year amounting to £191,378 (2015: £158,226).

Workplace pensions auto-enrollment came into effect during the prior financial year, and the company started auto-enrolling eligible employees from 1 December 2013.

##### **Defined benefit**

The group operated two fully funded defined benefit pension schemes: the S.A. Brain & Company Limited Group Pension Scheme and the Crown Buckley Limited Pension Scheme. The assets of both schemes are held in separate trustee administered funds. The most recent actuarial valuation of the S.A. Brain & Company Limited Group Pension Scheme was at 1 July 2016 and was carried out using the projected unit method by a professionally qualified actuary employed by Quantum Advisory Limited. The most recent actuarial valuation of the Crown Buckley Limited Pension Scheme was at 1 July 2016 and was carried out using the projected unit method by a professionally qualified actuary employed by Quantum Advisory Limited.

Certain overhead costs relating to the group's pension schemes were paid on their behalf by S.A. Brain & Company Limited. These were, on behalf of the S.A. Brain & Company Limited Group Pension Scheme £365,327 (2015: £202,649) and on behalf of the Crown Buckley Limited Pension Scheme £155,499 (2015: £112,696).

The following information is provided in accordance with FRS 102 and represents combined information for the two defined benefit schemes operated by the company. The information is based on approximate actuarial updates carried out at the Balance Sheet date by the respective actuaries.

#### **RECONCILIATION OF PRESENT VALUE OF PLAN LIABILITIES**

	<b>1 October 2016 £000</b>
At the beginning of the year	<b>84,214</b>
Current service cost	<b>580</b>
Interest cost	<b>3,320</b>
Actuarial losses	<b>12,120</b>
Benefits paid	<b>(4,340)</b>
At the end of the year	<b>95,894</b>

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
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**32. PENSION COMMITMENTS (CONTINUED)**

**RECONCILIATION OF PRESENT VALUE OF PLAN ASSETS**

	1 October 2016 £000
At the beginning of the year	74,184
Interest income	2,930
Actuarial gains	7,790
Contributions	1,900
Benefits paid	(4,340)
Non-investment expenses	(110)
At the end of the year	<u>82,354</u>

**COMPOSITION OF PLAN ASSETS**

	1 October 2016 £000	26 September 2015 £000
Equities	29,666	25,210
Bonds	16,440	15,640
GARS Fund	5,320	4,230
Dynamic growth fund	8,440	8,000
Other	22,488	21,104
Total plan assets	<u>82,354</u>	<u>74,184</u>

Scheme assets include 57,197 (2015: 55,331) ordinary shares in S.A. Brain & Company Limited. The schemes have not invested in any of the properties occupied by S.A. Brain & Company Limited or in any other assets used by the group.

	1 October 2016 £000	26 September 2015 £000
Fair value of plan assets	82,354	74,184
Present value of plan liabilities	(95,894)	(84,214)
Net pension scheme liability	<u>(13,540)</u>	<u>(10,030)</u>

**S.A. BRAIN & COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 OCTOBER 2016**

**32. PENSION COMMITMENTS (CONTINUED)**

**THE AMOUNTS RECOGNISED IN PROFIT OR LOSS ARE AS FOLLOWS:**

	<b>1 October 2016 £000</b>	<b>26 September 2015 £000</b>
Current service cost	(580)	(730)
Interest on obligation	(3,320)	(3,360)
Expected return on scheme assets	2,930	2,900
Non-investment expenses	(110)	(140)
<b>TOTAL</b>	<b>(1,080)</b>	<b>(1,330)</b>
Actual return on scheme assets	10,720	3,170

**PRINCIPAL ACTUARIAL ASSUMPTIONS AT THE BALANCE SHEET DATE (EXPRESSED AS WEIGHTED AVERAGES):**

	<b>2016 %</b>	<b>2015 %</b>
Discount rate	2.40	3.95
Rate of increase in pensions in payment:		
- S.A. Brain & Company Limited Group Pension Scheme	2.10 - 3.50	2.10 - 3.50
- Crown Buckley Limited Pension Scheme	1.65 - 2.90	1.80 - 2.90
Inflation assumption	1.75	2.00
Mortality rates:		
- for a male aged 65 now	21.1	21.3
- at 65 for a male aged 45 now	22.4	22.6
- for a female aged 65 now	23.1	23.3
- at 65 for a female member aged 45 now	24.6	24.8

## S.A. BRAIN & COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016

#### 33. COMMITMENTS UNDER OPERATING LEASES

At 1 October 2016 the group and the company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 1 October 2016 £000	Group 26 September 2015 £000	Company 1 October 2016 £000	Company 26 September 2015 £000
Not later than 1 year	2,950	2,127	695	695
Later than 1 year and not later than 5 years	8,403	6,108	2,099	2,099
Later than 5 years	3,748	4,185	2,371	3,066
	<u>15,101</u>	<u>12,420</u>	<u>5,165</u>	<u>5,860</u>

#### 34. RELATED PARTY TRANSACTIONS

##### Directors

Consultancy fees were paid to an entity controlled by J F W Rhys (a director of the company) during the year amounting to £42,000 (2015: £42,000). There were no amounts outstanding at the year end (2015: £Nil).

##### Pension schemes

Certain overhead costs relating to the group's pension schemes were paid on their behalf by S.A. Brain & Company Limited. These were, on behalf of the S.A. Brain & Company Limited Group Pension Scheme £365,327 (2015: £202,649) and on behalf of the Crown Buckley Limited Pension Scheme £155,499 (2015: £112,696). At the year end there was a creditor of £23,589 (2015: £34,841) relating to the S.A. Brain & Company Limited Group Pension Scheme and a creditor of £13,119 (2015: £20,153) relating to the Crown Buckley Limited Pension Scheme outstanding at the year end.

#### 35. ULTIMATE CONTROLLING PARTY

There is no ultimate controlling party in the opinion of the directors.

## S.A. BRAIN & COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016

#### 36. SUBSIDIARY UNDERTAKINGS

The following were subsidiary undertakings of the company:

Name	Country of incorporation	Class of shares	Holding	Principal activity
Coffee #1 Limited	UK	Ordinary	100 %	Coffee Retailer
Crown Buckley Limited	UK	Ordinary	100 %	Holding Company
S.A. Brain and Company Ventures Limited	UK	Ordinary	100 %	Dormant
The Bowl Inn Limited	UK	Ordinary	100 %	Dormant
Brain Crown Buckley Limited	UK	Ordinary	100 %	Dormant
Crown Buckley Taverns Limited*	UK	Ordinary	100 %	Dormant
Filbuk 313 Limited**	UK	Ordinary	100 %	Dormant
The Good Pub Company Limited	UK	Ordinary	100 %	Dormant
Laing Holdings Limited	UK	Ordinary	100 %	Dormant
Ablemade Limited	UK	Ordinary	100 %	Dormant
Crown Brewery Plc**	UK	Ordinary	100 %	Dormant
Groovebrick Limited***	UK	Ordinary	100 %	Dormant
William Stedman Limited	UK	Ordinary	100 %	Dormant
S.A.B Property Company Limited	UK	Ordinary	100 %	Land owner and property developer

\* Indirectly owned - Share capital held by Crown Brewery Plc

\*\* Indirectly owned - Share capital held by Crown Buckley Limited

\*\*\* Indirectly owned - Share capital held by Laing Holdings Limited

## S.A. BRAIN & COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016

#### 37. FIRST TIME ADOPTION OF FRS 102

The group and company transitioned to FRS 102 from previously extant UK GAAP as at 28 September 2014. The impact of the transition to FRS 102 is as follows:

##### Reconciliation of equity at 28 September 2014

	Group £000	Company £000
Total shareholders' funds at 28 September 2014 under previous UK GAAP	52,630	55,391
Hedged interest rate swaps (note a)	(7,206)	(7,206)
Revaluation of freehold properties at deemed cost (note b)	35,043	35,043
Deferred tax adjustment on hedged interest rate swaps (note a)	1,289	1,289
<b>Total shareholders' funds at 28 September 2014 under FRS 102</b>	<b>81,756</b>	<b>84,517</b>

##### Reconciliation of equity at 26 September 2015

	Group £000	Company £000
Total shareholders' funds at 26 September 2015 under previous UK GAAP	45,073	47,144
Hedged interest rate swaps (note a)	(7,406)	(7,406)
Revaluation of freehold properties at deemed cost (note b)	41,074	41,074
Defined benefit pension scheme (note c)	(138)	(138)
Deferred tax adjustment on hedged interest rate swaps (note a)	1,537	1,537
<b>Total shareholders' funds at 26 September 2015 under FRS 102</b>	<b>80,140</b>	<b>82,211</b>

##### Reconciliation of profit and loss account for the year ended 26 September 2015

	Group £000	Company £000
Loss for the year under UK GAAP	(5,317)	(6,007)
Adjustment to impairment of tangible assets (note b)	3,008	3,008
Adjustment to loss/profit on sale of tangible assets (note b)	2,016	2,016
Adjustment to depreciation charge (note b)	1,007	1,007
Defined benefit pension scheme (note c)	(1,730)	(1,730)
Deferred tax adjustment on hedged interest rate swaps (note a)	208	208
Deferred tax adjustment on defined benefit pension scheme (note c)	(484)	(484)
<b>Loss for the year ended 26 September 2015 under FRS 102</b>	<b>(1,292)</b>	<b>(1,982)</b>

## **S.A. BRAIN & COMPANY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 OCTOBER 2016**

#### **37. FIRST TIME ADOPTION OF FRS 102 (CONTINUED)**

The following were changes in accounting policies arising from the transition to FRS 102:

- a) On transition to FRS 102 the company has recognised the fair values of hedged interest rate swap derivatives, which were not previously recognised under previously extant UK GAAP, in the financial statements. This transitional adjustment has decreased the total shareholders' funds as at 28 September 2014 by £7,206,000 and decreased the total shareholders' funds as at 26 September 2015 by £7,406,000, but has had no effect on the loss for the year ended 26 September 2015. The deferred tax effect of this adjustment has been to decrease the loss for the year ended 26 September 2015 by £208,000, increase the total shareholders' funds by £1,289,000 as at 28 September 2014 and increase the total shareholders' funds by £1,537,000 as at 26 September 2015.
- b) On transition to FRS 102 the company has applied the transitional arrangements of Section 35 of FRS 102 and used a valuation made at the date of transition as the deemed cost for its freehold property. This transitional adjustment has increased the total shareholders' funds as at 28 September 2014 by £35,043,000, increased the total shareholders' funds as at 26 September 2015 by £41,074,000 and decreased the loss for the year ended 26 September 2015 by £6,031,000. The decrease in the loss for the year consists of a reduction to the impairment of tangible assets of £3,008,000, and increase from a loss on disposal of tangible assets to a profit on disposal of fixed assets of £2,016,000 and a decrease to the depreciation charge as a result of the remeasurement of residual values of £1,007,000. There has been no deferred tax effect of this adjustment on the loss for the year ended 26 September 2015, the total shareholders' funds as at 28 September 2014 and the total shareholders' funds as at 26 September 2015.
- c) On transition to FRS 102 the company has adjusted the financial statements to reflect a change in the measurement of the expected return from the defined benefit pension assets, applying the same discount rate to the expected asset return as is applied to the liabilities as required under FRS 102. This transitional adjustment has increased the loss for the year ended 26 September 2015 by £1,730,000 but has had no effect on the total shareholders' funds as at 28 September 2014 or at 26 September 2015, reflecting an adjustment between the interest income recognised in profit or loss and the actuarial gains recognised in other comprehensive income. The deferred tax effect of this adjustment has been to increase the loss for the year ended 26 September 2015 by £484,000, but has had no effect on the total shareholders' funds as at 28 September 2014 or the total shareholders' funds as at 26 September 2015.



**S.A. BRAIN & COMPANY LIMITED**

**GROUP FIVE YEAR SUMMARY**

	FRS 102		Previously extant UK GAAP			
	2016 £000	2015 £000	2015 £000	2014 £000	2013 £000	2012 £000
<b>TRADING RESULTS</b>						
Turnover	135,404	126,772	126,772	123,020	122,181	120,745
Total operating profit before exceptionals	5,896	6,432	5,565	5,204	3,714	4,029
Total operating profit	5,522	4,495	451	5,423	2,547	3,666
Profit/(loss) before tax	3,209	(197)	(4,498)	1,748	109	(2,077)
Profit/(loss) after tax	3,634	(1,292)	(5,317)	837	225	(1,883)
<b>RATIOS</b>						
Earnings/(loss) per ordinary share (p)	259.8	(92.4)	(546.2)	86.0	23.1	(193.4)
Dividend paid per ordinary share (p)	166.0	166.0	166.0	83.0	166.0	166.0
<b>EMPLOYMENT OF CAPITAL</b>						
Intangible fixed assets	6,261	6,683	6,683	7,114	7,526	7,948
Tangible fixed assets	171,150	165,964	124,890	135,898	138,324	141,837
Long term investments	816	811	811	819	830	945
Net current (liability)/assets	(346)	1,700	1,700	(4,689)	(3,989)	(6,579)
Long term creditors and provisions	(85,494)	(79,996)	(75,995)	(72,849)	(73,264)	(75,205)
Accruals and deferred income	(3,042)	(4,992)	(4,992)	(4,183)	(4,882)	(1,716)
Pension scheme liability	(13,540)	(10,030)	(8,024)	(9,480)	(7,250)	(5,631)
	<u>75,805</u>	<u>80,140</u>	<u>45,073</u>	<u>52,630</u>	<u>57,295</u>	<u>61,599</u>
<b>CAPITAL EMPLOYED</b>						
Share capital	974	974	974	974	974	974
Cash flow hedging reserve	(1,588)	(5,925)	-	-	-	-
Other reserves	22,479	22,479	22,479	22,479	22,479	22,479
Profit and loss account	53,940	62,612	21,620	29,177	33,842	38,146
	<u>75,805</u>	<u>80,140</u>	<u>45,073</u>	<u>52,630</u>	<u>57,295</u>	<u>61,599</u>