

# **Mitchells & Butlers Retail (No. 2) Limited**

## **Report and Financial Statements**

For the 52 weeks ended 26 September 2015

*Registered Number: 3959664*

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# Mitchells & Butlers Retail (No. 2) Limited

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## STRATEGIC REPORT

For the 52 weeks ended 26 September 2015

### BUSINESS MODEL

The Company is a UK operator of pubs and restaurants with an estate of 198 managed outlets and 6 leased and franchised outlets at 26 September 2015 (2014 190 managed outlets and 7 leased and franchised outlets).

Turnover for the period was £256,361,000 (2014 £224,285,000) with a loss for the period before taxation of £29,429,000 (2014 profit of £8,349,000). Taxation credited against the loss for the period was £138,000 (2014 credit against profit £44,000) leaving a loss after taxation of £29,291,000 (2014 profit of £8,393,000). At the balance sheet date the Company reported net assets of £147,423,000 (2014 £166,155,000).

Our strategy is to focus on the long-term growth of food within the £78bn eating and drinking out market, with the majority of our turnover coming from guests eating in our pubs and restaurants.

In FY 2015 we have made good progress against our objectives. Sales started the year well but softened as we progressed through the year. The summer weather undoubtedly did not help, with beer gardens not seeing the benefit of any sustained period of sunshine. Other factors such as supply into the market and consumers deferring expenditure to higher-priced items such as holidays abroad also had an impact. These are challenges which we must face and address.

FY 2015 also saw the completion of the EPOS systems projects, with new payment systems, tills, handheld devices and kitchen management equipment now rolled out across the estate.

### *Market supply*

In recent years the overall eating and drinking out market has changed significantly. We have seen the number of restaurants increase, with net openings of around 1,700 in the last year, and close to 5,000 from 2012 to 2015. Within this number, there have been close to 3,500 restaurant closures, and many more pub closures, highlighting the ongoing structural change in the market and the competitive environment in which we are all operating.

The composition of the market has changed: independent restaurants and tenanted pubs have reduced, with growth coming from the branded sector and fast food. Much of the new competition in the sector is 'fast-casual', with operators often single-brand focused, with a relatively small number of outlets and flexibility to keep offers fresh and up-to-date.

### *Consumers*

The changing competitive landscape is very much linked to the evolving consumer. Expectations are rising on the quality, environment, value and offers available. Value continues to be important, although crucially this does not just equal low price. Consumers continue to broaden their horizons for eating and drinking out. There is also a greater demand for personalisation – the mindset of having "what I want and when I want it" continues to develop.

Consumers' lifestyles are also influencing the way they eat and drink out. Alcohol consumption is reducing compared to previous generations, and there is a general trend towards health consciousness, although there is very much still a willingness to occasionally indulge in 'guilty pleasures'.

The impact of technology is also notable on consumers, with them being digitally connected in all aspects of life.

### *Brands*

Our branded sites are clearly an area of strength for the business, with national presence and enduring guest appeal. This strength is evident from the strong returns on investment we have generated from converting Orchid sites to our branded offers. We need to continue to ensure that all of our branded offers have a clear and targeted proposition, and that they remain relevant to our guests.

# Mitchells & Butlers Retail (No. 2) Limited

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## STRATEGIC REPORT

For the 52 weeks ended 26 September 2015

### BUSINESS MODEL (CONTINUED)

We must also ensure that we have the appropriate balance of brands, and number of sites within each brand, according to demographics and changing consumer needs. This will mean accelerating the conversions to our most successful smaller brands, and aggressively defending the more mature established brands.

#### *Innovation*

We need to approach innovation from all angles: new product development, the use of technology to improve efficiency, and digital innovation to drive the best engagement with our guests.

Given the competitive environment, we need to increase our willingness to undertake trial activity, and accelerate the rollout of those which prove to be successful. This will take the form of improving the return from our existing assets, but also new product development to exploit further market opportunities.

Our guests are increasingly digitally connected in all aspects of their life. This provides a significant opportunity for us, to communicate with and reach our guests in a variety of new ways, to engage with them with new offers, and to get a deeper understanding of consumer preferences to further drive insight.

### KEY PERFORMANCE INDICATORS

The Company is a trading division of the Mitchells & Butlers plc Group and the performance of the Company is monitored as part of the wider Group, using similar key performance indicators. These are discussed in the Annual Report and Accounts 2015 of Mitchells & Butlers plc and include staff turnover, net promoter score, same outlet like-for-like sales growth and incremental return on expansionary capital.

Further explanation of the reasons for the movements can be found in the Annual Report and Accounts 2015 of Mitchells & Butlers plc.

### PRINCIPAL RISKS AND UNCERTAINTIES

The Company's Directors consider the risks for the Company to be largely the same as the risks of the Group that are discussed in the Annual Report and Accounts 2015 of Mitchells & Butlers plc. These include, but are not restricted to the following:

#### **Market risks**

##### *Consumer taste and brand management*

Social and demographic changes are driving the long-term growth in eating-out while at the same time leading to a steady decline in the sales of on-trade drinks without food. These changes, together with other developments in consumer taste may reduce the appeal of brands to its guests, especially if the Company fails to anticipate and identify these changes and respond to them adequately and promptly.

The Company uses an online guest satisfaction survey to collect guest feedback. This feedback together with the results of research studies is monitored and evaluated by a dedicated guest insight team to ensure that the relevance to customers of the Company's brands is maintained.

##### *Pricing and market changes*

External influences, such as changes in the general economic climate or competitor activity, could have a detrimental effect on consumers' spending patterns and therefore the Company's revenue, profitability and consequently the value of its assets.

The Company's business is focused on the long-term potential of the eating-out market. The Company owns sites across the UK with a wide spectrum of customer offers targeted at different consumer groups and leisure occasions. This range allows the Company to respond to changes in consumer expenditure either by flexing our offerings or by substituting a different brand at a particular location.

# Mitchells & Butlers Retail (No. 2) Limited

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## STRATEGIC REPORT

For the 52 weeks ended 26 September 2015

### PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

#### Operational risks

##### *People planning and development*

The business has a strong customer focus, and as such it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation.

The Company makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. Furthermore, an employee survey is conducted annually to establish employee satisfaction and engagement and compare it with other companies as well as previous surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys.

Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process is used to provide structured succession planning.

##### *Business continuity and crisis management*

The Company relies on its food and drink supply chain and the key IT systems underlying the business to serve its customers efficiently and effectively. Supply chain interruption, IT system failure or crises such as terrorist activity or the threat of disease pandemic might restrict sales or reduce operational effectiveness.

The Company has in place crisis and continuity plans that are tested and refreshed regularly.

##### *National living wage*

There is a risk that increased costs associated with the introduction of the National Living Wage may adversely impact upon overall operational costs.

A review of mitigating actions to be regarded as contingencies has been undertaken.

#### Regulatory risks

##### *Failure to operate safely & legally*

A major health and safety failure could lead to illness, injury or loss of life or significant damage to the Company's or a brand's reputation.

The Company maintains a robust programme of health and safety checks both within its restaurants and pubs and throughout the supply chain. Regular independent audits of trading sites are performed to ensure that procedures are followed and that appropriate standards are maintained. Food suppliers are required to meet the British Retail Consortium Global Standard for Food Safety and are subject to regular safety and quality audits. Comprehensive health and safety training programmes are in place.

### FUTURE DEVELOPMENT

The Company has developed its business strategy to focus on the growth parts of the eating and drinking-out market. The strategy to achieve this goal has five elements:

- Focusing the business on the most attractive market spaces within eating and drinking out;
- Developing superior brand propositions with high levels of consumer relevance;
- Recruiting, retaining and developing engaged people who deliver excellent service for our guests;
- Generating high returns on investment through scale advantage; and
- Maintaining a sound financial base.

# Mitchells & Butlers Retail (No. 2) Limited

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## STRATEGIC REPORT

For the 52 weeks ended 26 September 2015

By order of the Board



A W Vaughan  
Director  
23 November 2015

# Mitchells & Butlers Retail (No. 2) Limited

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## DIRECTORS' REPORT

For the 52 weeks ended 26 September 2015

The Directors present their report on the affairs of the Company, together with the financial statements and independent auditor's report, for the 52 weeks ended 26 September 2015. The comparative period is for the 52 weeks ended 27 September 2014.

## RESULTS AND DIVIDENDS

No dividends were declared or paid during the period (2014 £nil).

## GOING CONCERN

The financial statements have been prepared on a going concern basis. The Directors of Mitchells & Butlers plc, the ultimate parent undertaking have stated that they will continue to make funds available to the Company to enable it to meet its debts as they fall due for the foreseeable future, being a period of at least twelve months from the date of approval of the balance sheet.

## DIRECTORS

The following served as Directors of the Company during the period, and subsequently:

S K Martindale  
G McMahon  
L J Miles  
A W Vaughan

## EMPLOYMENT POLICIES

The company employed an average of 5,500 people in 2015 (2014 4,946). Through its diversity policy, the Company aims to provide an environment which enables people with disabilities to perform better by reviewing any reasonable adjustments that could be made to the duties, hours worked or working environment in respect of a disabled employee or potential employee. Candidates can inform the Company about their disability through the use of an online recruitment system, so that reasonable adjustments can be made during any assessment events, allowing them to perform to the best of their ability.

Should any employee of the Company become disabled during their time with it, the Company actively makes reasonable adjustments in accordance with current legislation, including arranging appropriate training, to retain them.

## EMPLOYEE ENGAGEMENT

The Company engages with its employees in a number of ways including;

- a dedicated portal, 'Our Hub';
- a monthly magazine poster, Frontline News;
- line manager briefings; and
- communications road-shows held by brands across the Company.

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings in restaurants and pubs, pulse surveys and an annual Business Forum.

Our employees participate in e-learning, covering food, health and fire safety, Challenge 21 and Intermediate Food Hygiene. We also provide a visual training library which houses short training videos to share best practice tips, health and safety, kitchen and cooking skills.

Employees can participate in the success of the business through employee share schemes.

# Mitchells & Butlers Retail (No. 2) Limited

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## DIRECTORS' REPORT

For the 52 weeks ended 26 September 2015


### AUDITOR

The Directors who held office as at the date of approval of this Directors' report confirm that so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and that each Director has taken all the steps that they ought to have taken as a Director to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

A resolution to re-appoint Deloitte LLP will be put to the forthcoming Annual General Meeting.

By order of the Board



A W Vaughan

Director

23 November 2015

### DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MITCHELLS & BUTLERS RETAIL (NO. 2) LIMITED

We have audited the financial statements of Mitchells & Butlers Retail (No. 2) Limited for the 52 weeks ended 26 September 2015 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Statement of Historical Cost Profits and Losses, the Balance Sheet, and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## **Respective responsibilities of Directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

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 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. 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.

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 26 September 2015 and of its loss for the 52 weeks 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.

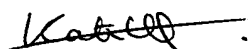
## **Opinion on other matter prescribed by the Companies Act 2006**

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

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Kate Hadley (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Birmingham, UK  
23 November 2015

# Mitchells & Butlers Retail (No. 2) Limited

## PROFIT AND LOSS ACCOUNT

For the 52 weeks ended 26 September 2015

		<i>52 weeks ended 26 September 2015 £000</i>	<i>52 weeks ended 27 September 2014 £000</i>
	<i>Notes</i>		
<b>TURNOVER</b>	2	<b>256,361</b>	224,285
Operating costs*	3,4	<u>(284,758)</u>	<u>(340,600)</u>
<b>OPERATING LOSS</b>		<b>(28,397)</b>	(116,315)
<b>NON-OPERATING EXCEPTIONAL ITEMS</b>			
Profit on disposal of fixed assets		<u>221</u>	<u>274</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST</b>		<b>(28,176)</b>	(116,041)
Interest receivable and similar income	5	-	9
Interest payable and similar charges	6	(1,253)	(619)
Income from investments	7	<u>-</u>	<u>125,000</u>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(29,429)</b>	8,349
Tax on (loss)/profit on ordinary activities	8	<u>138</u>	<u>44</u>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	18	<u><b>(29,291)</b></u>	<u>8,393</u>

\* 2015 includes an exceptional impairment charge in respect of tangible assets of £19,403,000 (2014 £7,572,000), an exceptional impairment charge in respect of fixed asset investments of £23,235,000 (2014 £nil), and operating exceptional items of £2,966,000 (2014 £17,000).

All turnover and costs are derived from continuing operations.

The notes on pages 12 to 23 form an integral part of these financial statements.

## Mitchells & Butlers Retail (No. 2) Limited

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the 52 weeks ended 26 September 2015

	<i>52 weeks ended 26 September 2015 £000</i>	<i>52 weeks ended 27 September 2014 £000</i>
<b>RETAINED (LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	<b>(29,291)</b>	<b>8,393</b>
Unrealised gains on revaluation of the property portfolio	<u>10,559</u>	<u>13,478</u>
<b>TOTAL RECOGNISED GAINS AND LOSSES</b>	<b><u>(18,732)</u></b>	<b><u>21,871</u></b>

### STATEMENT OF HISTORICAL COST PROFITS AND LOSSES

For the 52 weeks ended 26 September 2015

	<i>52 weeks ended 26 September 2015 £000</i>	<i>52 weeks ended 27 September 2014 £000</i>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>(29,429)</b>	<b>8,349</b>
Realisation of property revaluation surplus on sale of properties	<u>-</u>	<u>(196)</u>
<b>HISTORICAL COST (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b><u>(29,429)</u></b>	<b><u>8,153</u></b>
<b>HISTORICAL COST (LOSS)/PROFIT RETAINED AFTER TAXATION</b>	<b><u>(29,291)</u></b>	<b><u>8,197</u></b>

The notes on pages 12 to 23 form an integral part of these financial statements.

**BALANCE SHEET**  
 At 26 September 2015

		<i>26 September 2015 £000</i>	<i>27 September 2014 £000</i>
	<i>Notes</i>		
<b>FIXED ASSETS</b>			
Tangible assets	9	344,681	335,008
Investments	10	282,362	306,342
		<b>627,043</b>	641,350
<b>CURRENT ASSETS</b>			
Stocks	11	2,637	2,413
Debtors: amounts falling due within one year	12	19,570	26,949
Deferred tax asset	13	1,142	1,004
Cash at bank and in hand		1,189	1,257
		<b>24,538</b>	31,623
<b>CREDITORS: amounts falling due within one year</b>	14	(500,554)	(505,033)
<b>NET CURRENT LIABILITIES</b>		(476,016)	(473,410)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>151,027</b>	167,940
<b>CREDITORS: amounts falling due after more than one year</b>	15	615	886
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	16	(4,219)	(2,671)
<b>NET ASSETS</b>		<b>147,423</b>	166,155
<b>CAPITAL AND RESERVES</b>			
Share capital	17, 18	-	-
Revaluation reserve	18	134,736	124,208
Profit and loss account	18	12,687	41,947
<b>SHAREHOLDERS' FUNDS</b>		<b>147,423</b>	166,155

The notes on pages 12 to 23 form an integral part of these financial statements.

Signed on behalf of the Board



A W Vaughan  
 Director  
 23 November 2015

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 26 September 2015

1. ACCOUNTING POLICIES

A summary of the principal accounting policies applied by the Company is set out below. These have been applied consistently over the current and prior period.

***Basis of accounting***

The Financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain tangible fixed assets. They comply with applicable accounting standards in the United Kingdom.

***Accounting reference date***

The Company's accounting reference date is 30 September. The Company has drawn up its financial statements for the 52 weeks to 26 September 2015, the Saturday directly preceding the accounting reference date, as permitted by section 390(3) of the Companies Act 2006. The comparative period is for the 52 weeks ended 27 September 2014.

***Consolidation***

The financial statements contain information about the individual Company and do not contain consolidated financial information as the parent of a group. The Company is exempt from preparing group accounts under s400 of Companies Act 2006 since the Company is a wholly owned subsidiary undertaking of another UK company. Group accounts are prepared by the ultimate parent Company.

***Going Concern***

The financial statements have been prepared on a going concern basis. The Directors of Mitchells & Butlers plc, the ultimate parent undertaking, have stated that they will continue to make funds available to the Company to enable it to meet its debts as they fall due for the foreseeable future, being a period of at least twelve months from the date of approval of the balance sheet.

***Cash flow***

As permitted under FRS1 (Revised 1996) Cash flow statements, the Company has taken advantage of the exemption from preparing a cash flow statement as the Company is a wholly owned subsidiary undertaking of Mitchells & Butlers plc whose financial statements for the 52 weeks ended 26 September 2015 include a consolidated cash flow statement incorporating the cash flows of the Company.

***Fixed asset investments***

Fixed asset investments are stated at cost less any provision for impairment. It is the policy of the Company to expense acquisition costs in the period in which the costs were incurred.

***Fixed assets and depreciation***

The Company revalues the majority of its freehold and long leasehold licensed properties to market value for accounting purposes, which it reviews at least annually.

Short leasehold properties (properties with an unexpired term of 50 years or less), unlicensed properties and fixtures, fittings and equipment are held at cost less depreciation and impairment.

The Company's policy is to account for land held under both long and short leasehold contracts as operating leases, since it has no expectation that title will pass on expiry of the lease contracts.

Any revaluation surplus is credited to the revaluation reserve in the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the profit and loss account, in which case, the increase is recognised in the profit and loss account, less the depreciation that would have been charged had the revaluation decrease not been recognised in the profit and loss account.

A revaluation deficit is recognised in the profit and loss account where it is caused by a clear consumption of economic benefits. Other revaluation deficits are recognised in the statement of total recognised gains and losses until the carrying amount reaches its depreciated historical cost. Thereafter it is recognised in the profit and loss account.

# Mitchells & Butlers Retail (No. 2) Limited

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## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 26 September 2015

### 1. ACCOUNTING POLICIES (CONTINUED)

#### *Fixed assets and depreciation (continued)*

Surpluses or deficits arising from previous professional valuations of properties, realised on the disposal of an asset, are transferred from the revaluation reserve to the profit and loss account reserve.

Leasehold properties are depreciated over the unexpired term of the lease when less than 50 years.

The cost of fixtures, fittings and equipment is spread, on a straight line basis, over the estimated useful lives of the relevant assets of between 3 and 20 years.

#### *Leases*

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value.

#### *Pensions*

The Company's profit and loss account charge in respect of its defined contribution arrangements is equal to the contributions payable for the period.

Mitchells & Butlers plc, the sponsoring employer, accounts for pensions in accordance with FRS 17 Retirement Benefits. Since there is no contractual agreement or policy in place to allocate the defined benefit plan across the subsidiaries that each employ members of these plans, which include the Company, the net defined benefit cost is recognised by Mitchells & Butlers plc.

The deficit in the Mitchells & Butlers plc pension plans, as measured on an FRS 17 basis, is recorded in the financial statements of Mitchells & Butlers plc, the sponsoring employer of the Mitchells & Butlers pension plans.

#### *Taxation*

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are recognised, subject to certain exceptions, in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes. Those timing differences recognised include accelerated capital allowances and short-term timing differences.

Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets and the gain on the sale of the assets to the extent that it is more likely than not that they will be rolled over into replacement assets.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### *Group tax relief*

It is the policy of the Mitchells & Butlers plc Group for no payment to be made for group tax relief received.

#### *Turnover*

Turnover represents sales (excluding VAT and similar taxes, coupons and staff discounts) of goods and services provided in the normal course of business.

Turnover primarily comprises food and beverage sales which are normally recognised and settled at the point of sale to the customer.

# Mitchells & Butlers Retail (No. 2) Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 26 September 2015

### 1. ACCOUNTING POLICIES (CONTINUED)

#### *Use of estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results can differ from those estimates. Estimates are used when accounting for items such as depreciation, asset impairments, pensions and tax.

#### *Share-based payment*

Share options and share awards are granted to employees of the Company by Mitchells & Butlers plc. Mitchells & Butlers plc accounts for share options and share awards in accordance with FRS 20 Share-based Payment. The cost of such awards is measured at fair value, excluding the effect of non market-based vesting conditions, on the date of grant. The expense is recognised over the vesting period and is adjusted for the estimated effect of non market-based vesting conditions and forfeitures, on the number of shares that will eventually vest due to employees leaving the Company. Fair values are calculated using either the Black-Scholes, Binomial or Monte Carlo simulation models depending upon the conditions attached to the particular share scheme.

The Company's profit and loss account charge in respect of share-based payments represents an allocation of the overall charge incurred by the Group.

### 2. TURNOVER ANALYSIS

Mitchells & Butlers Retail (No.2) Limited is a wholly owned subsidiary of Mitchells & Butlers plc, with its operations falling under a single class of business and all residing within the UK. As such the Company is not required to complete separate disclosure notes under SSAP25 and opts to disclose only a single business segment.

### 3. OPERATING COSTS

	<i>52 weeks ended 26 September 2015 £000</i>	<i>52 weeks ended 27 September 2014 £000</i>
The following amounts are included within operating costs:		
Hire of plant and machinery	1,591	1,343
Property operating lease costs	23,231	18,889
Movements in the valuation of the property portfolio (note 9)*	19,403	7,572
Depreciation of tangible fixed assets (note 9)	13,721	13,285
Impairment of fixed asset investment (note 10)**	23,235	-
Recharge from Mitchells & Butlers plc in respect of additional contributions to the defined benefit pension plans	271	152
Payment to Mitchells & Butlers Acquisition Company in relation to historical property benefits (note 7)	-	125,000
Exceptional costs – integration of Orchid Pubs and Dining Limited***	2,966	17

\* In the current period £19,403,000 (2014 £7,572,000) of movement in the valuation of the property portfolio comprises £7,860,000 (2014 £4,763,000) of impairment recognised on short leasehold and unlicensed properties where their carrying values exceed their recoverable amount and £11,543,000 charge (2014 £2,809,000) arising from the Company's revaluation of its pub estate.

\*\* Impairment relating to the investment in Mitchells & Butlers Acquisition Company.

\*\*\* Integration costs incurred in relation to the acquisition of Orchid Pubs and Dining Limited on 15 June 2014.

Fees paid to Deloitte LLP for audit services were £7,000 (2014 £7,000). The fee is borne on behalf of the Company by another Group company. Fees paid to Deloitte LLP and their associates for non-audit services are not disclosed for the Company since the Annual Report and Accounts 2015 of Mitchells & Butlers plc, the ultimate parent of Mitchells & Butlers Retail (No.2) Limited discloses such fees on a consolidated basis.

# Mitchells & Butlers Retail (No. 2) Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 26 September 2015

### 4. EMPLOYEES AND DIRECTORS

	<i>52 weeks ended 26 September 2015 £000</i>	<i>52 weeks ended 27 September 2014 £000</i>
Employee costs during the period amounted to:		
Wages and salaries	65,918	57,253
Social security costs	3,917	3,422
Pensions	425	378
Share-based payments*	159	118
	<b>70,419</b>	<b>61,171</b>

\* Full disclosure of the share schemes in operation during the period, and their valuations, are provided in the Mitchells & Butlers plc Annual Report and Accounts 2015.

#### Average number of employees

The average number of persons employed by the Company during the period, including part time employees, was 5,500 (2014 4,946).

#### Pensions

Retirement and death benefits are provided for eligible employees in the United Kingdom principally by the Mitchells & Butlers Pension Plan (MABPP) and the Mitchells & Butlers Executive Pension Plan (MABEPP). These plans are funded, HMRC approved, occupational pension schemes with defined contribution and defined benefit sections.

From 1 January 2013 Mitchells & Butlers plc implemented a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrolls all eligible workers into a Qualifying Workplace Pension Plan.

#### Defined contribution scheme

The Company's profit and loss account charge in respect of its defined contribution arrangements is equal to the contributions payable for the period.

In the 52 weeks ended 26 September 2015, the Mitchells & Butlers plc Group paid £7m (2014 £7m) in respect of the defined contribution arrangements. The pension charge in respect of the defined contribution arrangements included in the profit and loss account of the Company for the 52 weeks ended 26 September 2015 was £425,000 (2014 £378,000).

#### Defined benefit scheme

The defined benefit sections of the plans closed to new entrants during 2002 with new members provided with defined contribution arrangements. On 13 March 2011 the defined benefit plan was closed to future accrual. At the same time Mitchells & Butlers plc implemented a revised defined contribution benefit structure. The defined benefit liability relates to these funded plans, together with an unfunded unapproved pension arrangement (the Executive Top-Up Scheme, or MABETUS) in respect of certain MABEPP members. The assets of the plans are held in self-administered trust funds separate from the Company's assets.

# Mitchells & Butlers Retail (No. 2) Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 26 September 2015

### 4. EMPLOYEES AND DIRECTORS (CONTINUED)

#### *Defined benefit scheme (continued)*

##### *Measurement of assets and liabilities*

Mitchells & Butlers plc has accounted for pensions in accordance with FRS 17 Retirement Benefits. The valuations used by Mitchells & Butlers plc for FRS 17 purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2013 and updated by the schemes' qualified actuaries to 26 September 2015. Scheme assets are stated at market value at 26 September 2015 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. Full disclosure of assumptions and the valuation is provided in the Mitchells & Butlers plc Annual Report and Accounts 2015.

##### *Minimum funding requirements*

The results of the 2013 actuarial valuation show a funding deficit of £572m, using a more prudent basis to discount the scheme liabilities than is required by FRS 17 and on 21 May 2014 Mitchells & Butlers plc formally agreed a 10 year recovery plan with the Trustees to close the funding deficit in respect of its pension scheme liabilities. As a result the Group agreed to increase additional contributions from £40m to £45m per annum for three years effective from 1 April 2013. From 1 April 2016 the contributions are increased by RPI (capped between 0% and 5%). As part of the recovery plan, the Group has also made a further payment of £40m in September 2015 on terms agreed with the Trustees. An additional liability is recognised such that the overall pension liability at the period end reflects the schedules of contributions in relation to a minimum funding requirement. The FRS 17 deficit calculated on this basis is £280m (£350m net of deferred tax asset of £70m).

##### **Directors' remuneration**

The four Directors who served during the period, were all employed by another Group company (Mitchells & Butlers Leisure Retail Limited) and are also Directors of other subsidiary companies of the Mitchells & Butlers plc Group. The Directors received total remuneration of £0.9m (2014 £1.3m) in respect of their services to the Group, but it is not practical to allocate this between each of the subsidiary companies for which they act as a Director. At the period end four (2014 four) of the Directors were members of the Group's defined contribution scheme, with two (2014 two) Directors also holding accrued service within the Group's defined benefit scheme.

The highest paid Director received emoluments of £0.3m (2014 £0.3m), with Company contributions to defined contribution pension schemes of £nil (2014 £nil).

### 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks ended 26 September 2015 £000	52 weeks ended 27 September 2014 £000
Bank interest	-	9

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended 26 September 2015 £000	52 weeks ended 27 September 2014 £000
External interest	960	401
Interest due to group undertakings	293	218
	<u>1,253</u>	<u>619</u>

# Mitchells & Butlers Retail (No. 2) Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 26 September 2015

### 7. INCOME FROM INVESTMENTS

During the financial period ended 30 September 2006, Mitchells & Butlers Acquisition Company, a subsidiary of the Company, acquired a pubs business from Whitbread PLC and transferred the pub assets to the Company, in the form of a dividend in specie. Mitchells & Butlers Acquisition Company determined in the prior period that this dividend was not properly declared. As a result the properties had not in fact been transferred and the legal title to the relevant properties was held by the Company on behalf of Mitchells & Butlers Acquisition Company. The original dividend of £465,252,000 was therefore reversed during the prior period.

The profits from trading these properties since the date of acquisition should have properly been for the account of Mitchells & Butlers Acquisition Company, as the holder of beneficial title. During the prior period the Company paid an amount of £125,000,000 to Mitchells & Butlers Acquisition Company to reflect the historical profits arising from these properties (see note 3).

During the prior period the Company received dividend income of £590,252,000 from Mitchells & Butlers Acquisition Company, a subsidiary of the Company, by way of a dividend in specie of all the original properties of £465,252,000, together with a cash amount of £125,000,000.

### 8. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

<i>Tax credit/(charge)</i>	<i>52 weeks ended 26 September 2015 £000</i>	<i>52 weeks ended 27 September 2014 £000</i>
<b>Current tax</b>		
UK corporation tax	2,464	24,402
Group relief received for no payment	(2,464)	(24,402)
Adjustments in respect of prior periods	-	1
<b>Total current tax</b>	<u>-</u>	<u>1</u>
<b>Deferred Tax</b>		
Origination and reversal of timing differences	226	(22)
Adjustments in respect of prior periods	(88)	65
<b>Total deferred tax (note 13)</b>	<u>138</u>	<u>43</u>
<b>Total tax on profit on ordinary activities</b>	<u>138</u>	<u>44</u>
Further analysed as tax relating to:		
Operating (loss)/profit and interest	(785)	(564)
Exceptional items – current and deferred tax	923	608
	<u>138</u>	<u>44</u>
	<b>%</b>	<b>%</b>
<b>Tax Reconciliation</b>		
Standard UK corporation tax rate	20.5	22.0
Permanent differences	(16.8)	(325.7)
Capital allowances in excess of depreciation	2.4	(8.4)
Other timing differences	-	0.2
Exceptional items	(14.4)	19.6
Group relief received for no payment	8.3	292.3
<b>Effective current tax rate</b>	<u>0.0</u>	<u>0.0</u>

# Mitchells & Butlers Retail (No. 2) Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 26 September 2015

### 8. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

#### *Factors which may affect future tax charges*

It was announced in the 2015 Summer Budget that the main rate of corporation tax would be reduced by 1% to 19% on 1 April 2017 and by a further 1% to 18% on 1 April 2020. Neither of these changes had been substantively enacted at the balance sheet date and therefore the effects are not included in these financial statements.

The reduction in the main rate of corporation tax is likely to result in a reduction in future years in the deferred tax asset provided at the balance sheet date. The full impact of these changes has not yet been quantified.

### 9. TANGIBLE FIXED ASSETS

	<i>Land and buildings £000</i>	<i>Fixtures, fittings &amp; equipment £000</i>	<i>Total £000</i>
<b>Cost or valuation</b>			
At 27 September 2014	274,230	98,348	372,578
Additions	14,855	18,220	33,075
Disposals*	(2,989)	(6,742)	(9,731)
Revaluation**	(4,308)	(4,536)	(8,844)
<b>At 26 September 2015</b>	<b>281,788</b>	<b>105,290</b>	<b>387,078</b>
<b>Depreciation</b>			
At 27 September 2014	7,832	29,738	37,570
Provided in the period	3,197	10,524	13,721
Disposals*	(2,231)	(6,663)	(8,894)
<b>At 26 September 2015</b>	<b>8,798</b>	<b>33,599</b>	<b>42,397</b>
<b>Net book value</b>			
<b>At 26 September 2015</b>	<b>272,990</b>	<b>71,691</b>	<b>344,681</b>
At 27 September 2014	266,398	68,610	335,008

\* Includes assets which are fully depreciated and have been removed from the fixed asset register.

\*\* £19,403,000 has been charged (2014 £7,572,000) against current period profits (see note 3), with the balance of £10,559,000 gain (2014 £13,478,000) recognised through the revaluation reserve (see note 17).

Certain assets with a net book value of £40,530,000 (2014 £38,795,000) owned by the Company are subject to a fixed charge in respect of liabilities held by the Mitchells & Butlers Executive Top Up Scheme (MABETUS).

Cost at 26 September 2015 includes £5,362,000 (2014 £1,384,000) of assets in the course of construction.

#### *Properties*

A policy of valuing the majority of the Company's freehold and long leasehold land and buildings, for accounting purposes, was adopted on 27 September 2008.

Short leasehold properties (properties with an unexpired term of 50 years or less), unlicensed properties and fixtures, fittings and equipment are held at cost less depreciation and impairment.

The Company's policy is to account for land held under both long and short leasehold contracts as operating leases, since it has no expectation that title will pass on expiry of the lease contracts.

# Mitchells & Butlers Retail (No. 2) Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 26 September 2015

### 9. TANGIBLE FIXED ASSETS (CONTINUED)

The freehold and long leasehold land and buildings were valued at market value, as at 26 September 2015 using information provided by CBRE. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book') assuming each asset is sold as part of the continuing enterprise in occupation individually as a fully operational trading entity. The market value has been determined having regard to factors such as current and future projected income levels, taking account of the location, the quality of the pub or restaurant and recent market transactions in the sector. Changes in these assumptions such as the valuation basis applied in comparable market transactions, or the income level generated by a pub could materially impact the valuation of the freehold and long leasehold land and buildings. It is estimated that a £1 change in the EBITDA of the freehold and long leasehold land and buildings would generate approximately £8 movement in their valuation.

#### *Analysis of land and buildings*

	<i>Net Book Value 26 September 2015 £000</i>	<i>Net Book Value 27 September 2014 £000</i>
Freehold properties (at valuation)	229,280	224,332
Long leasehold properties (at valuation)	17,722	16,362
Short leasehold and unlicensed properties (at cost)	25,988	25,704
<b>Total land and buildings</b>	<b>272,990</b>	<b>266,398</b>

#### *Historical cost of land and buildings*

	<i>Net Book Value £000</i>
At 26 September 2015	175,400
At 27 September 2014	176,400

### 10. FIXED ASSET INVESTMENTS

	<i>Subsidiary Undertakings £000</i>
<b>Cost</b>	
At 27 September 2014	779,170
Adjustment to prior year acquisition*	(745)
At 26 September 2015	778,425
<b>Provision</b>	
At 27 September 2014	(472,828)
Impairment**	(23,235)
At 26 September 2015	(496,063)
<b>Net book value</b>	
At 26 September 2015	282,362
At 27 September 2014	306,342

\* Release of an accrual of £745,000 for costs in relation to the acquisition of Orchid Pubs and Dining Limited and Midco 1 Limited on 15 June 2014.

\*\* Impairment relating to the investment in Mitchells & Butlers Acquisition Company.

# Mitchells & Butlers Retail (No. 2) Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 26 September 2015

### 10. FIXED ASSET INVESTMENTS (CONTINUED)

Details of the investments in which the Company holds directly all of the share capital are as follows:

<i>Subsidiary undertaking</i>	<i>Country of registration (or incorporation) and operation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Mitchells & Butlers Acquisition Company	United Kingdom	Ordinary shares	100%	Non-trading
Ha Ha Bar & Grill Limited	United Kingdom	Ordinary shares	100%	Leisure retailing
Intertain (Dining) Limited	United Kingdom	Ordinary shares	100%	Non-trading
Orchid Pubs & Dining Limited	United Kingdom	Ordinary shares	100%	Leisure retailing
Midco 1 Limited	United Kingdom	Ordinary shares	100%	Property leasing company

### 11. STOCKS

	<i>26 September 2015 £000</i>	<i>27 September 2014 £000</i>
Goods held for resale	<u>2,637</u>	<u>2,413</u>

The replacement cost of stocks approximates to the value above.

### 12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<i>26 September 2015 £000</i>	<i>27 September 2014 £000</i>
Trade debtors	221	393
Other debtors	81	406
Prepayments	598	4,643
Amounts owed from subsidiary undertaking	<u>18,670</u>	<u>21,507</u>
	<u>19,570</u>	<u>26,949</u>

### 13. DEFERRED TAX ASSET

	<i>26 September 2015 £000</i>	<i>27 September 2014 £000</i>
At beginning of the period	1,004	961
Profit and loss account: current period	226	(22)
Profit and loss account: prior periods	(88)	65
At end of the period	<u>1,142</u>	<u>1,004</u>
Analysed as tax on timing differences related to:		
Fixed assets	1,044	894
Other timing differences	98	110
	<u>1,142</u>	<u>1,004</u>

# Mitchells & Butlers Retail (No. 2) Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 26 September 2015

### 13. DEFERRED TAX ASSET (CONTINUED)

No provision has been made for deferred tax on the sale of properties at their revalued amounts or where gains have been or are expected to be deferred against expenditure on replacement assets for an indefinite period until the sale of the replacement assets. The total amount unprovided is estimated at £36,683,000 (2014 £31,607,000). It is not anticipated that any such tax will be payable in the foreseeable future

### 14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	26 September 2015 £000	27 September 2014 £000
Bank overdraft	24,952	63
Amounts owed to ultimate parent undertaking	434,367	425,445
Amounts owed to fellow subsidiary undertakings	20,356	56,964
Other taxation and social security	518	1,266
Accruals	11,416	12,875
Other creditors *	8,945	8,420
	<u>500,554</u>	<u>505,033</u>

\* Includes 1,000 5% non-redeemable preference shares of £1 (2014 1,000).

### 15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	26 September 2015 £000	27 September 2014 £000
Revolving credit facility*	<u>(615)</u>	<u>(886)</u>

\* During the prior period, the Company entered into two revolving credit facilities of £75,000,000 each, available for general corporate purposes. At 26 September 2015 the amount drawn is £nil (2014 £nil) and the capitalised issue costs amount to £615,000 (2014 £886,000). Both facilities expire on 31 December 2017.

### 16. PROVISION FOR LIABILITIES AND CHARGES

	26 September 2015 £000	27 September 2014 £000
Property provisions	<u>4,219</u>	<u>2,671</u>
<i>Property lease provision</i>		
	26 September 2015 £000	27 September 2014 £000
At the start of the period	2,671	2,010
Released in the period	(322)	-
Provided in the period	2,726	1,203
Utilised in the period	<u>(856)</u>	<u>(542)</u>
At the end of the period	<u>4,219</u>	<u>2,671</u>

# Mitchells & Butlers Retail (No. 2) Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 26 September 2015

### 16. PROVISION FOR LIABILITIES AND CHARGES (CONTINUED)

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprise the lower of the net rent payable or the operating loss after rental costs. The provisions are calculated on a site by site basis, with an estimated period of future losses of up to five years. Other contractual dilapidations costs are also recorded as provisions as appropriate, over a period of five years prior to lease expiry.

### 17. SHARE CAPITAL

	26 September 2015 £	27 September 2014 £
Allotted, called up and fully paid:		
1 ordinary share of £1 (2014 1)	<u>1</u>	<u>1</u>

### 18. RECONCILIATION OF MOVEMENT IN RESERVES AND SHAREHOLDERS' FUNDS

	Share capital £000	Revaluation reserve £000	Profit & loss account £000	Total £000
At 28 September 2013	-	110,997	33,287	144,284
Unrealised surplus on revaluation of the property portfolio	-	13,478	-	13,478
Disposal of properties		(196)	196	-
Transfer to profit and loss*		(71)	71	-
Profit for the period	<u>-</u>	<u>-</u>	<u>8,393</u>	<u>8,393</u>
At 27 September 2014	-	124,208	41,947	166,155
Unrealised surplus on revaluation of the property portfolio	-	10,559	-	10,559
Transfer to profit and loss*		(31)	31	-
Loss for the period	<u>-</u>	<u>-</u>	<u>(29,291)</u>	<u>(29,291)</u>
At 26 September 2015	<u>-</u>	<u>134,736</u>	<u>12,687</u>	<u>147,423</u>

\* Relates to depreciation on revalued properties

## Mitchells & Butlers Retail (No. 2) Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 26 September 2015

#### 19. FINANCIAL COMMITMENTS

##### *Operating lease commitments*

The Company has annual rental commitments under property operating leases which expire as follows:

	<i>26 September</i> <i>2015</i> <i>£000</i>	<i>27 September</i> <i>2014</i> <i>£000</i>
Within one year	10	176
Between one and five years	707	443
After five years	18,759	18,487
	<u>19,476</u>	<u>19,106</u>

##### *Capital commitments*

	<i>26 September</i> <i>2015</i> <i>£000</i>	<i>27 September</i> <i>2014</i> <i>£000</i>
Future capital expenditure contracted for, but not provided for	<u>3,662</u>	<u>4,378</u>

#### 20. RELATED PARTY DISCLOSURES

As a wholly owned subsidiary of Mitchells & Butlers plc, the Company has taken advantage of the exemption under FRS 8 Related Party Disclosures not to disclose details of related party transactions or balances with entities which form part of the Group.

#### 21. CONTINGENT LIABILITIES

The Company is party to a composite guarantee with other Group companies which also participate in its day-to-day cash pooling arrangements. Any potential liability is the aggregate gross overdraft of every participant, capped at the level of cash in hand held by the Company. At 26 September 2015, the Company had in hand cash of £1,189,000 (2014 £1,257,000) which is less than the aggregate gross overdraft of all the participant companies. Therefore, at 26 September 2015, the Company had a contingent liability under the composite guarantee of £1,189,000 (2014 £1,257,000).

#### 22. ULTIMATE PARENT UNDERTAKING

Mitchells & Butlers plc is the ultimate parent undertaking and controlling party of the Company. The immediate parent undertaking of the Company is Mitchells & Butlers Holdings Limited. The only group in which the Company is consolidated is that headed by Mitchells & Butlers plc. Copies of the Group consolidated financial statements of Mitchells & Butlers plc are available from the Company Secretary, Mitchells & Butlers plc, 27 Fleet Street, Birmingham, B3 1JP.

All undertakings above, including the Company, are companies incorporated in the United Kingdom and registered in England and Wales.