

Italian Coffee Holdings Ltd

Report and Financial Statements

31 May 2019



Company Information

Registered No. 04129005

Directors

G W Ford
B J Price

Secretary

B J Price

Auditor

Ernst & Young LLP
1 More London Place
London SE1 2AF

Solicitor

Linklaters
1 Silk Street
London EC2Y 8HQ

Registered Office

9-15 Neal Street,
London
WC2H 9QL
United Kingdom

Strategic Report

The directors present their Strategic Report and Directors' Report and financial statements of Italian Coffee Holdings Ltd ('the company') for the year ended 31 May 2019.

Principal activities and business review

The company is a holding company. Due to its principal activity of being a holding company, the directors do not consider that specific key performance indicators exist although the directors are satisfied with the performance of investments.

Financial Instruments

The main risks arising from the company's use of financial instruments are investment impairment risk and credit risk. The Board reviews and agrees policies for managing each of these risks and these policies are summarised below.

Credit risk

The company limits its exposure to credit risk by only lending to fellow group companies who are considered low risk due to the strength of the enlarged group of which the company is a member. The maximum credit risk exposure is represented by the carrying value of the amount due from the group undertakings.

Investment impairment risk

The directors understanding of the risks associated with the investments held by the entity relate to the potential impairment of those investments. To identify any risk of impairment in a timely manner, the company reviews the financial performance of its investments on a regular basis. To date, all investments have had a strong year and are not exhibiting indicators of impairment. This is expected to continue for the foreseeable future.

Capital management

Capital comprises shareholders' equity and financing from the company's parent undertakings. The primary objective of the company's capital management policy is to ensure that the company has adequate capital to support the business. The company monitors the cost of the various sources of capital on an ongoing basis and manages cost through planning future alternative sources of capital. No changes in these factors were made during the year. The company has no externally imposed capital restrictions.

Principal risks and uncertainties

The principal risk in Italian Coffee Holdings Ltd is the carrying value of investments in subsidiaries, which is dependent on their trading results. Exposure to this risk is mitigated through regular review of the subsidiaries performance.

The company is also exposed to credit risk on its receivables and manages exposure to this risk by only lending to group companies.

The directors continually identify, evaluate and manage material risks and uncertainties that could adversely affect the company's business, operating results and financial condition. The directors consider the principal risks and uncertainties facing the business to be those relevant to the trading entities in the enlarged Nero Group, which comprise the following:

Company specific risks:

- Disruption to the business through failure of key suppliers;
- Increases in prices of key raw ingredients;
- Increases in other key costs such as wages and rents;
- Breakdowns in internal controls through fraud or error; and
- Breakdown in relations with international partners.

Strategic Report (continued)

Broader sector or macroeconomic risks:

- The loss of key personnel or the failure to manage succession planning;
- Adverse economic conditions in Caffè Nero's international retail/leisure markets; and
- Increased competition in the international markets in which Caffè Nero operates.
- The outcome of Brexit negotiations especially as they affect availability of personnel and the import and export of goods in EU territories



Ben Price
Director

DATE: 22/10/2019

Registered No. 04129005

Director's report

The directors present their report and financial statements for the year ended 31 May 2019.

Results and dividends

During the current and prior year, the company did not trade, had no cash flows and no movement in equity. Accordingly, no statement of comprehensive income, statement of cash flows or statement of changes in equity is presented. No dividend is proposed (2018-nil).

Going concern

The directors confirm they have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors

The directors who served the company during the year to the date of approving these financial statements for issue were as follows:

G W Ford
B J Price

Financial Instruments

Financial instruments have been discussed within the strategic report of these accounts.

Disclosure of information to the auditor

Each of the persons who are directors at the time when this Directors' report is approved have confirmed that;

- so far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that ought to have been taken as directors' in order 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 provisions of S418 of the Companies Act 2006.

Auditor

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor.

Director's report (continued)

On behalf of the Board



Ben Price

Director

DATE: 22/10/2014

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK 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 for that period.

In preparing those 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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 Italian Coffee Holdings Ltd

We have audited the financial statements of Italian Coffee Holdings Ltd for the year ended 31 May 2019 which comprise the Statement of Financial Position, Statement of Changes in Shareholders' Equity and the related notes 1 to 11, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 May 2019 and of its result 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial

Independent auditor's report (continued)

to the members of Italian Coffee Holdings Ltd

Other information (continued)

statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement as set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit

Independent auditor's report (continued)

to the members of Italian Coffee Holdings Ltd

Auditor's responsibilities for the audit of the financial statements (continued)

conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

This report is made solely to the 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.



Zishan Nurmohamed (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

22/10/2019

Statement of Financial Position

at 31 May 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Intangible assets	4	117	117
Investments	5	9,724	9,724
		<u>9,841</u>	<u>9,841</u>
Current assets			
Amounts due from subsidiary undertakings	6	5,023	5,023
Total assets		<u>14,864</u>	<u>14,864</u>
Net assets		<u>14,864</u>	<u>14,864</u>
Capital and reserves			
Called up share capital	7	389	389
Share premium account		13,385	13,385
Capital redemption reserve		15	15
Retained earnings		1,075	1,075
Total equity		<u>14,864</u>	<u>14,864</u>

The financial statements were approved by the Board of Directors on its behalf by:

and signed on

Gerry Ford
Director



DATE: 22/10/2019

Ben Price
Director



DATE: 22/10/2019

Notes to the financial statements

at 31 May 2019

1. Accounting policies

Authorisation of financial statements and statement of compliance

The UK group and parent undertaking financial statements were authorised for issue by the Board of the Directors on 22 October 2019. Italian Coffee Holdings Ltd is a private limited company incorporated and domiciled in England and Wales.

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with the provisions of the Companies Act 2006.

These financial statements have been prepared for the individual company only. The company has taken advantage of the exemption available under section 400 of the Companies Act 2006 not to prepare group financial statements as the results of the company are included in the consolidated financial statements of an intermediate parent undertaking and are publicly available (as set out in note 11). The company did not trade during the year and therefore no result for the year has been shown in a Statement of Comprehensive Income.

Going concern

The directors have produced cash flow forecasts, which indicate that the UK group can continue as a going concern for the foreseeable future. Having made due and careful enquiry, the directors consider that there are no material uncertainties that may cast doubt over the UK group's ability to continue as a going concern. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Basis of preparation

The company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of IFRS 7 '*Financial Instruments*'
- (b) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 '*Presentation of Financial Statements*'
- (c) the requirements of paragraph 17 of IAS 24 '*Related Party Disclosures*'
- (d) the requirements in IAS 24 '*Related Party Disclosures*' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which a party to the transaction is wholly owned by such a member; and
- (e) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 '*Impairment of Assets*'.
- (f) the requirements of paragraph 91-99 of IFRS 13 '*Fair Value Measurement*', this exemption requires that equivalent disclosures are included in the financial statements of the group in which the entity is consolidated
- (g) the requirements of IAS 7 '*Statement of Cash Flows*';

New standards and interpretations not applied

The following standards and interpretations, which have been issued by the IASB, become effective after the current year end and have not been early adopted by the Company:

<i>International Accounting Standards (IAS/IFRS/IFRIC)</i>		<i>Effective date</i>
IFRS 16	Leases	01 January 2019
IFRIC 23	Uncertainty over Income Tax treatments	01 January 2019

The effective dates stated here are those given in the original IASB standards. The application of new standards will be subject to the standards having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Company's discretion to early adopt standards.

Notes to the financial statements

at 31 May 2019

1. Accounting policies (continued)

The directors are currently assessing the impact of IFRS 16 and IFRIC 23 respectively. At the date of this report, it is not practicable to provide a reasonable estimate of the effect of this standard until a detailed review has been completed.

New standards effective for the current financial year

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' replaced IAS 39 'Financial Instruments: Recognition and Measurement' with the exception of macro hedge accounting. This standard has not had a material impact on the Company.

IFRS 15 'Revenues from Contracts with Customers'

IFRS 15 supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations and it applies with limited exceptions to all revenue arising from contracts with customers.

IFRS 15 did not have a material impact on the Company's financial statements; no 2018 amounts have been restated as a result of this standard nor have the current year figures changed as a result of its implementation.

Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates.

The key source of estimation uncertainty that has a significant risk of causing material adjustment to the financial statements within the next financial year is the carrying value of investments. These investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Financial assets

Financial assets are recognised when the company becomes party to the contracts that give rise to them and are classified as financial assets at fair value. The company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets on initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of Trade Receivables which does not have a significant financing component, the company measures its financial assets at fair value plus, in case of financial assets not at fair value, through profit and loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flow that are 'Solely payments of principal and interest (SPPI)' on the principal amount outstanding. The assessment is referred to as SPPI test and is performed at instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through Statement of profit and loss account (called the Statement of Comprehensive income in these accounts), irrespective of business model.

The Company's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from collecting contractual cashflows, selling the financial asset, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Notes to the financial statements

at 31 May 2019

1. Accounting policies (continued)

Subsequent measurement

Financial assets at amortised cost - Loans and receivables

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade receivables, and loans to other group companies included under non-current financial assets.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Impairment and collectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognised as an expense in the statement of comprehensive income. Impairment is determined as follows;

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previous recognised in the statement of comprehensive income;
- For assets carried at cost, impairment is the difference between the carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- For assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective interest rate.
- For trade and other receivables, the Company applies the simplified approach permitted by IFRS 9, with lifetime expected credit losses (ECLs) recognised from initial recognition of the receivable. These assets are grouped, based on shared credit risk characteristics and days past due, with ECLs for each grouping determined, based on the Company's historical credit loss experience. Adjustments are made for factors specific to each receivable, general economic conditions and expected changes in forecast conditions.

Derecognition of financial assets

A financial asset (or, where applicable as part of a financial asset or part of a group of similar financial assets) is derecognised when the right to receive cash flows from the asset have expired or the company has transferred its rights to receive cash flows from the asset.

Investments in subsidiaries

Investments are stated at cost less provision for impairment. The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Notes to the financial statements

at 31 May 2019

2. Directors' remuneration

No remuneration was paid or is payable to the directors in their capacity as directors of the company (2018 – £nil). The directors are also directors of a fellow group undertaking, Nero Holdings Limited, who paid the directors emoluments and pension contributions of £1.1m (2018 – £1.0m) in respect of services to the enlarged UK group of which the company is a member. It is not possible to identify the proportion of these emoluments that relate to services to this company.

The company had no employees during the current and prior years.

3. Auditor's remuneration

Auditors' remuneration and any fees for non-audit services for 2019 and 2018 have been met by another group company.

4. Intangible fixed assets

<i>Group</i>	<i>Trademarks</i> £000	<i>Total</i> £000
Cost:		
At 1 June 2018	117	117
Additions		
At 31 May 2019	117	117
Amortisation:		
At 1 June 2018	–	–
Charge for the year	–	–
At 31 May 2019	–	–
Net book value:		
At 31 May 2019	117	117
At 1 June 2018	117	117

5. Non-current asset investments

<i>Company</i>	<i>Shares in subsidiary undertakings</i> £000
Cost:	
At 1 June 2018 and 31 May 2019	9,724

In the opinion of the directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which it is stated in the balance sheet.

The company holds all the equity share capital of Nero Holdings Limited which operates Italian style coffee houses and Nero Coffee Roasting Ltd ⁽¹⁾ which roasts coffee. Nero Holdings Limited ⁽¹⁾ holds all the equity share capital of Aroma Limited ⁽¹⁾, Harris and Hoole Limited ⁽¹⁾ and Caffè Nero Ireland Limited ⁽²⁾ which also operate coffee houses. The results of these companies have not been consolidated in these financial statements. All the companies are registered in England and Wales.

⁽¹⁾ Registered address: 9-15 Neal Street, London, WC2H 9QL

⁽²⁾ Registered address: 2nd Floor Beaux Lane House, Mercer Street Lower, Dublin 2

Notes to the financial statements

at 31 May 2019

6. Other receivables

	<i>Company</i> <i>2019</i> <i>£000</i>	<i>Company</i> <i>2018</i> <i>£000</i>
Amount due from group companies	5,023	5,023
	<u>5,023</u>	<u>5,023</u>

7. Issued share capital

<i>Issued and fully paid</i>	<i>No.</i>	<i>2019</i> <i>£000</i>	<i>No.</i>	<i>2018</i> <i>£000</i>
Ordinary shares of £0.5 each	77,846,690	<u>389</u>	77,846,690	<u>389</u>

8. Capital commitments

At 31 May 2019, capital commitments contracted but not provided for in the financial statements were £0.6 million (2018 – £0.6 million).

9. Contingent liabilities

The company is part of a wider group which had provided an unlimited cross guarantee in favour of the bankers of the parent of The Nero Group Ltd covering the term loans of The Nero Group Ltd and certain subsidiaries. The carrying value of these loans at 31 May 2019 was £354.6 million (2018 – £326.2 million).

10. Related party transactions

In accordance with IAS 24, the company has taken advantage of the related party disclosure exemption as Italian Coffee Holdings Ltd is a wholly owned subsidiary of the group.

11. Ultimate parent undertaking and controlling party

At the year end, the ownership structure is as follows:

Immediate parent undertaking	Rome Bidco Limited
Parent undertaking of the smallest group for which group financial statements are prepared	The Nero Group Ltd ⁽¹⁾
Parent undertaking of the largest group for which group financial statements are prepared	The Nero Company ⁽²⁾
Majority shareholder of The Nero Company	G W Ford ⁽³⁾

(1) Copies of the group financial statements for The Nero Group Ltd (formerly Rome Topco Limited) can be obtained from 9-15 Neal Street, London, WC2H 9QL.

Notes to the financial statements

at 31 May 2019

11. Ultimate parent undertaking and controlling party (continued)

⁽²⁾ The Nero Company is a company incorporated in Luxembourg. Copies of these group accounts can be obtained from Avenue 46a JF Kennedy, Luxembourg, and L-1855.

⁽³⁾ G W Ford is the ultimate controlling party of the company.