

Frimley Topco Limited

Report and Financial Statements

11 Months Ended

1 January 2017

Company Number 07729514



Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

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Directors

N Chaudhary
R Cheshire
M Dowell
T Hennessy
R Ledger
M Martinez

Secretary and registered office

R Ledger, Unit 4, Albany Park, Frimley Road, Camberley, Surrey, GU16 7PQ

Company number

07729514

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Strategic Report

The directors present their strategic report together with the audited financial statements for the 11 months from 1 February 2016 to 1 January 2017.

Results and dividends

The Consolidated Income Statement is set out on page 9. The results presented reflect trading for the 11 months ended 1 January 2017. Operating profit for the 11 months is £6,310,000 (2016 12 months: £10,307,000). Profit after tax for the 11 months of £2,541,000 (2016 12 months: £6,218,000) has been transferred to reserves.

The directors do not recommend the payment of a dividend.

Principal activity

Frimley Topco Limited is an investment holding company, maintaining investments in Frimley Bidco Limited and Krispy Kreme U.K. Limited which hold the rights to operate the Krispy Kreme brand in the United Kingdom and Republic of Ireland. Krispy Kreme is a leading branded speciality retailer and wholesaler of doughnuts. The premium quality doughnuts are freshly made every day with quality ingredients, utilising a secret recipe, in a vertically integrated production process.

Business review

The business has continued to make excellent progress during the period under review.

Revenue for the 11 month period has increased by 8.1%, to £66,689,000 (2016: £61,700,000 - 12 month period). At 1 January 2017 the group operated 80 retail locations across the United Kingdom (2016: 61). The group also continues to develop its off-premises business with new and long-standing partners.

The directors are pleased with the trading performance of the group, and the further improvement in gross profit margin to 58.7% (2016: 58.5%). Net exceptional costs totalling £4,138,000 were incurred, mainly as a result of the sale of the group and impairment of fixed assets, partially offset by a lease premium received.

This has resulted in an adjusted EBITDA (calculated by taking the profit before tax and adding back, interest, depreciation, amortisation and exceptional items) of £14,580,000 (21.9% of sales) compared with £13,645,000 (22.1% of sales) in the previous year, which provides a stable and cash generative base on which the directors intend to continue building a sustained and measured roll-out over the coming years as suitable retail and off-premise sites become available.

Change of ownership and refinancing

On 28 October 2016 the company was sold to Krispy Kreme Holding UK Limited, a subsidiary of JAB Holding s.a.r.l. As a result of this change of ownership the group's loans with Santander UK plc were repaid and the group was refinanced through loans with another group company at a significantly lower interest cost.

Key performance indicators (KPIs)

The group uses a range of performance measures to monitor and manage the business effectively. These are both financial and non-financial measures.

The key financial measures are turnover, gross profit, adjusted EBITDA (calculated by taking the profit before tax and adding back, interest, tax, depreciation, amortisation and exceptional items), and Return on Investment. These KPI's indicate the size of our business and management's effectiveness in delivering return on sales and capital invested.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Strategic Report (continued)

Key performance indicators (KPIs) (continued)

The key non-financial measures are foot-fall, average transaction value, mystery shopper score and brand awareness. The first three of these provide a measure of our success in attracting customers to our stores, the value of the purchase they make once in-store and our success in serving the customers according to the Krispy Kreme standard. Brand awareness enables us to measure the success of our marketing activity.

The key financial measures for the 11 months ended 1 January 2017 are shown below:

	11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
Revenue	66,689	61,700
Gross profit	39,126	36,078
Gross profit margin	58.7%	58.5%
Adjusted EBITDA	14,580	13,645
Adjusted EBITDA as % of Sales	21.9%	22.1%
Return on Investment (adjusted EBITDA/tangible fixed asset and franchise fee cost)	32.6%	36.1%

Employee information

The average number of employees (excluding directors) of the group during the period was 1,416 (2016: 1,197).

The group is committed to communicating with its employees in an open way through an annual employee survey and a series of "listening groups". Due to the nature of the business this communication primarily takes place at store level and so no formal employee involvement groups exist.

The group does not monitor the number of registered disabled employees. It is the policy of the group and the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Supplier payment policy

The group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the group at 1 January 2017 were equivalent to 59 (2016: 45) days' purchases, based on the average daily amount invoiced by suppliers during the period.

Principal risks and uncertainties

The majority of revenues come from the sale of doughnuts.

The principal risks to the group's continued success stem from the level of demand for the group's products, and the continuing availability of the unique ingredients supplied by Krispy Kreme Doughnut Corporation in the USA.

The directors anticipate a broadly stable economic environment in 2017 and remain confident of the outlook for the year. The directors believe that the group will prosper by continuing to provide an excellent product and service experience at an affordable price.

The directors have considered the financial risks the group is exposed to, further details of which are set out in note 23.

Frimley Topco Limited

Report and financial statements
for the 11 months ended 1 January 2017

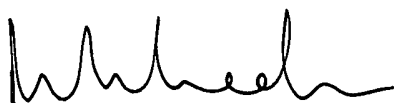
Strategic Report (continued)

Approval

This strategic report was approved by order of the Board on

18th Apr 2017

R Ledger



Director

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Report of the Directors

The directors present their report together with the audited financial statements for the 11 months ended 1 January 2017.

Directors

The directors of the company were:

G Amigues (appointed 28 October 2016, resigned 28 March 2017)
H H Burke (resigned 28 September 2016)
N I Bright (appointed 28 September 2016, resigned 28 October 2016)
N Chaudhary (appointed 28 March 2017)
R Cheshire (resigned 28 September 2016, re-appointed 21 October 2016)
M Dowell
S Esom (appointed 28 September 2016, resigned 28 October 2016)
G Henderson-Londono (resigned 28 October 2016)
T Hennessy (appointed 28 March 2017)
R Ledger
A P Lurie (resigned 28 September 2016, re-appointed 30 September 2016, resigned 28 October 2016)
M Martinez (appointed 28 October 2016)
O K Morley (appointed 28 September 2016, resigned 28 October 2016)
M Tattersfield (appointed 28 October 2016, resigned 28 March 2017)
A Thompson (appointed 28 October 2016, resigned 31 December 2016)

Directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' 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 group and company 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 group and company 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 and then apply them consistently;
- make judgements and accounting 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;
- 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.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Report of the Directors (continued)

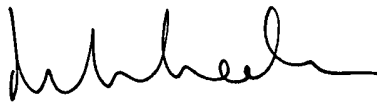
Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the next annual general meeting.

On behalf of the board

R Ledger



Director

18th April 2017

Date

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Independent Auditor's Report

TO THE MEMBERS OF FRIMLEY TOPCO LIMITED

We have audited the financial statements of Frimley Topco Limited for the 11 months ended 1 January 2017 which comprise the Consolidated Income Statement, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and the related notes. 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 auditors

As explained more fully in the statement of directors' responsibilities, 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 1 January 2017 and of the group's profit for the 11 months 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 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 directors' report for the financial period 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.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

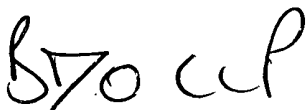
Independent Auditor's Report (continued)

Matters on which we are required to report by exception

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

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



*Sophia Michael (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom*

Date 26-4-2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Consolidated Income Statement for the 11 months ended 1 January 2017

	Note	11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
Revenue	3	66,689	61,700
Cost of sales		(27,563)	(25,622)
Gross profit		39,126	36,078
Administrative expenses		(32,816)	(25,771)
Adjusted EBITDA **		14,580	13,645
Depreciation	11	(3,397)	(2,835)
Amortisation	10	(735)	(779)
Exceptional items	6	(4,138)	276
Operating profit	7	6,310	10,307
Finance income	8	25	34
Finance charges	8	(1,942)	(2,220)
Movement in derivative financial instruments		-	25
Profit before tax		4,393	8,146
Taxation on profit from ordinary activities	9	(1,852)	(1,928)
Profit after taxation		2,541	6,218

**Adjusted EBITDA = Earnings before interest, tax, depreciation, amortisation and exceptional items

All amounts are derived from continuing activities.

There are no other gains and losses in the period, other than those shown above. Accordingly no separate Consolidated Statement of Comprehensive Income is presented.

The notes on pages 15 to 36 form part of these financial statements.

Frimley Topco Limited

Report and financial statements
for the 11 months ended 1 January 2017

Consolidated Statement of Financial Position as at 1 January 2017

	Note	1 January 2017 £'000	1 January 2017 £'000	31 January 2016 £'000	31 January 2016 £'000
Company number 07729514					
Non-current assets					
Intangible assets	10	11,538		12,063	
Property, plant and equipment	11	17,389		14,567	
			28,927		26,630
Current assets					
Inventory	13	1,155		867	
Trade and other receivables	14	5,722		3,168	
Cash at bank and in hand		4,927		5,623	
		11,804		9,658	
Current Liabilities	15	(10,693)		(10,393)	
Net current (liabilities)/assets			(1,111)		(735)
Total assets less current liabilities			30,038		25,895
Non-current liabilities	16		(26,113)		(24,330)
Provision for liabilities	18		(80)		(261)
Net assets			3,845		1,304
Equity					
Share Capital	19		1		1
Share Premium			9		9
Retained Earnings			3,835		1,294
Total Equity			3,845		1,304

The financial statements were approved by the Board of Directors and authorised for issue on

18th April 2017

R Ledger
Director



The notes on pages 15 to 36 form part of these financial statements.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Consolidated Statement of Changes in Equity for the 11 months ended 1 January 2017

	Share capital £'000	Share premium £'000	Retained Profits £'000	Total equity £'000
As at 1 February 2015	1	9	(4,924)	(4,914)
Profit for the period	-	-	6,218	6,218
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 January 2016	1	9	1,294	1,304
	<hr/>	<hr/>	<hr/>	<hr/>
	Share capital £'000	Share premium £'000	Retained Profits £'000	Total Equity £'000
As at 1 February 2016	1	9	1,294	1,304
Profit for the period	-	-	2,541	2,541
	<hr/>	<hr/>	<hr/>	<hr/>
As at 1 January 2017	1	9	3,835	3,845
	<hr/>	<hr/>	<hr/>	<hr/>

The notes on pages 15 to 36 form part of these financial statements.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Consolidated Statement of Cash Flows for the 11 months ended 1 January 2017

	Note	11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
Cash flows from operating activities			
Profit before tax		4,393	8,146
Adjustments for:			
Depreciation	11	3,397	2,835
Amortisation	10	735	779
Impairment of fixed assets	7	477	-
Reversal of impairment of fixed assets	7	-	(362)
Loss on disposal of assets	11	1	-
Movement in derivative financial instruments		-	(25)
Net finance costs	8	1,917	2,186
		<hr/>	<hr/>
		10,920	13,559
Changes in working capital:			
(Increase)/decrease in trade and other receivables	14	(1,507)	139
Increase in trade and other payables	15	3,342	188
Increase in inventories	13	(288)	(161)
Decrease in provisions	18	(181)	(37)
		<hr/>	<hr/>
Cash inflow from operations		12,286	13,688
Interest Paid	8	(1,672)	(1,290)
Taxation	9	(1,745)	(1,351)
		<hr/>	<hr/>
Net cash inflow from operating activities		8,869	11,047
Cash flows from investing activities			
Purchase of plant, property and equipment	11	(6,698)	(5,168)
Purchase of intangible assets	10	(210)	(64)
Interest received	8	25	34
		<hr/>	<hr/>
Net cash outflow from investing activities		(6,883)	(5,198)
Cash flows from financing activities			
Net proceeds from group borrowings		23,860	-
Proceeds from bank borrowings	16	-	23,096
Repayment of bank borrowings	16	(24,000)	(7,079)
Repayment of shareholder loan notes	16	(2,250)	(11,974)
Repayment of mezzanine debt	16	-	(11,514)
Repayment of capital element of finance lease contracts	16	(292)	(342)
		<hr/>	<hr/>
Net cash outflow from financing activities		(2,682)	(7,813)
Net (decrease)/increase in cash and cash equivalents		(696)	(1,964)
Cash and cash equivalents at the beginning of the period		5,623	7,587
		<hr/>	<hr/>
Cash and cash equivalents at the end of the period		4,927	5,623
		<hr/>	<hr/>

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Company Statement of Financial Position as at 1 January 2017

	Note	1 January 2017 £'000	1 January 2017 £'000	31 January 2016 £'000	31 January 2016 £'000
Current assets					
Trade and other receivables	14	23,251		4,283	
Cash at bank and in hand		192		-	
		<u>23,443</u>		<u>4,283</u>	
Current liabilities	15	<u>(2,482)</u>		<u>(1,645)</u>	
Net current assets			20,961		2,638
Non-current liabilities	16		<u>(25,245)</u>		<u>(3,093)</u>
Net liabilities			<u>(4,284)</u>		<u>(455)</u>
Equity					
Share capital	19		1		1
Share premium			9		9
Reserves			<u>(4,294)</u>		<u>(465)</u>
Total Equity			<u>(4,284)</u>		<u>(455)</u>

The financial statements were approved by the Board of Directors and authorised for issue on 18th April 2017

R Ledger
Director



The notes on pages 15 to 36 form part of these financial statements.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Company Statement of Changes in Equity for the 11 months ended 1 January 2017

	Share capital £'000	Share premium £'000	Retained losses £'000	Total equity £'000
As at 1 February 2015	1	9	(397)	(387)
Loss for the period	-	-	(68)	(68)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 January 2016	1	9	(465)	(455)
	<hr/>	<hr/>	<hr/>	<hr/>

	Share capital £'000	Share premium £'000	Retained losses £'000	Total Equity £'000
As at 1 February 2016	1	9	(465)	(455)
Loss for the period	-	-	(3,829)	(3,829)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 1 January 2017	1	9	(4,294)	(4,284)
	<hr/>	<hr/>	<hr/>	<hr/>

The notes on pages 15 to 36 form part of these financial statements.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Notes forming the Financial Statements

1 Basis of preparation

These Consolidated financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006.

In preparing the financial statements of the parent company, advantage has been taken of the following disclosures in respect of the parent company;

- No cash flow has been presented for the parent company
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the group as a whole;
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole

The consolidated financial statements are made up for the 11 months from 1 February 2016 to 1 January 2017 (2016: 12 months from 1 February 2015 to 31 January 2016). The accounting reference date has been changed to align with the new parent company (see note 25).

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 judgement in applying the Group's accounting policies (see note 2).

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented an Income Statement for the Company alone. The loss for the Company alone for the period is £3,829,000 (2016: loss of £68,000).

Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances, and any gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the historical financial information. Losses are eliminated in the same way as gains, but only to the extent that there is no evidence of impairment.

Going Concern

After reviewing the group's forecasts and projections, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The group therefore continues to adopt the going concern basis in preparing its financial statements.

The financial statements are presented in Sterling (£), rounded to the nearest thousand.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Notes forming the Financial Statements (continued)

2 Accounting policies

Revenue

Revenue represents sales to customers at invoiced amounts less value added tax and discounts. Revenue is recognised at the point of sale.

Financial assets

Classification

The Group classifies its financial assets as loans and receivables, or as available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are initially recognised at fair value, and are subsequently stated at amortised cost using the effective interest method.

Impairment of financial assets

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired asset.

Impairment of non-financial assets other than goodwill

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Plant, property and equipment

Plant, property and equipment are stated at cost, less accumulated depreciation and any provision for impairment.

Depreciation is provided to write off the cost, less estimated residual value, of all fixed assets evenly over their expected useful lives. It is calculated on a straight line basis over the following years:

Short term leases and improvements	-	over the length of the lease
Plant, machinery and motor vehicles	-	3-15 years
Fixtures, fittings and equipment	-	3-5 years

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Notes forming the Financial Statements (continued)

2 Accounting policies (continued)

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is twenty years. Management have estimated the economic life of twenty years based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which goodwill is attributed and any legal, regulatory or contractual provision that can limit useful life and assumptions that market participants would consider in respect of similar businesses. Provision is made for any impairment.

Inventory

Inventory is valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Taxation

Income tax for the years presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for the initial recognition of other assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Frimley Topco Limited
Report and financial statements
for the 11 months ended 1 January 2017

Notes forming the Financial Statements (continued)

2 Accounting policies (continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, is cancelled or expires. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other operating income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Franchise fees

Franchise fees are capitalised as intangible assets when they become payable under the terms of the franchise agreement.

Amortisation of franchise fees

Amortisation is provided to write off the cost, less estimated residual value, of all intangible assets in order to match the cost with the useful economic benefit. The franchise and development fee relating to each store is amortised over 15 years from the date of opening a new store consistent with the franchise and development agreement.

Impairment tests on the carrying value of the franchise fees are undertaken:

- at the end of the first full financial year following acquisition,
- in other years if events or changes in circumstances indicate that the carrying value may not be recoverable, and
- for any amounts not being amortised at the end of each year.

The original franchise fee for the territory is being amortised over the 30 year life of the agreement.

Frimley Topco Limited
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Notes forming the Financial Statements (continued)

2 Accounting policies (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The costs associated with operating leases are taken to the income statement on an accruals basis over the period of the lease. Lease incentives are credited to the income statement on a straight line basis over the period of the lease, or the first break clause, if it is expected at inception that this will be exercised.

Pension costs

The Group operates a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of the Group's derivative instrument (which does not qualify for hedge accounting) are recognised immediately in profit or loss and are included in other gains/(losses).

Frimley Topco Limited

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Notes forming the Financial Statements (continued)

2 Accounting policies (continued)

Foreign currency translation

The functional currency of the Group is pounds sterling because that is the currency of the primary economic environment in which the Group operates. The Group's presentational currency is pounds sterling.

Transactions and balances

Foreign currency and transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented within 'financial income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'other operating income' or 'other operating costs'.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. The increase in the provision due to the passage of time is recognised in finance costs.

Share capital

Ordinary shares are classified as equity. There is currently only one class of ordinary share in issue. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds.

Critical accounting estimates and judgements

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 are discussed below:

Impairment of property, plant and equipment

The Group has recorded impairment losses against property, plant and equipment, the majority of which relate to leasehold property improvements. Judgement is required in determining whether evidence of such impairment exists and, where necessary, estimates in relation to the value in use and/or realisable value of the relevant assets are required in order to determine the quantum of any impairment charge.

Provisions for onerous leases

The Group maintains a provision for costs associated with the operation of loss-making stores as detailed in note 18. The calculation of this provision requires estimates to be made in respect of the future losses of the relevant stores, over the remaining life of the relevant leases.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Notes forming the Financial Statements (continued)

3 Segmental reporting

The Group has one single business element and operates in the United Kingdom. This is consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance, has been identified as the management team comprising the Executive Directors who make strategic decisions.

4 Employees

	11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
Staff costs consist of:		
Wages and salaries	18,782	17,181
Social security costs	1,281	1,190
Other pension costs	208	213
	<u>20,271</u>	<u>18,584</u>

The average number of employees (including directors) during the period was 1,416 (2016: 1,197), of which 52 (2016:44) were involved in administration and 1,364 in sales and distribution (2016: 1,153).

5 Directors' remuneration

	11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
Directors' emoluments	518	602
Social security costs	66	59
Pension contributions	46	50
	<u>630</u>	<u>711</u>

2 (2016:2) directors were in the group's defined contribution pension scheme during the period.

	11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
Remuneration of the highest paid director:		
Emoluments	163	228
Social security costs	21	22
Pension contribution	-	-
	<u>184</u>	<u>250</u>

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Notes forming the Financial Statements (continued)

5 Directors' remuneration (continued)

Key management personnel include all directors and a number of senior managers across the group who together have authority and responsibility for planning, directing and controlling the activities of the group. The total compensation paid to key management personnel for services provided to the group was £1,071,000 (2016: £1,504,000). There are no defined benefit schemes for key management.

6 Exceptional items

	11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
Impairment/(reversal of impairment) of property, plant and equipment	477	(362)
Professional fees	4,045	-
Lease surrender premium	(280)	-
Movement in onerous lease provision (note 18)	(69)	86
Insurance reclaim	(35)	-
	<u>4,138</u>	<u>(276)</u>

In accordance with FRS102 Impairment of assets, where there is an indication of impairment the Group has carried out reviews of the carrying value of plant, property and equipment, taking into account the current trading performance and anticipated future cashflows. Assets are then carried at their recoverable amount which is the higher of fair value less costs to sell, or their economic use in the business. When a trading unit where recent performance and anticipated cashflows would suggest that it may have no economic value in use to the business has been identified, it has been valued at fair value less costs to sell, based on the directors view of the likely value on disposal. The impairment charge in the current period relates to five such trading units. The reversal in 2016 related to a manufacturing site that was closed during the period ending 31 January 2013. The site was subsequently reopened, and based upon the trading performance last year, the impairment was reversed.

During the current period the group of companies of which Frimley Topco Limited is a member, was sold (see note 25). Professional fees related to the transaction totalling £4,045,000 were incurred in respect of this and an IPO which was aborted as a result of the sale.

£280,000 was received during the period in relation to the early surrender of a lease.

Settlement of an outstanding insurance claim during the period resulted in an exceptional credit of £35,000.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Notes forming the Financial Statements (continued)

7 Operating profit

	11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
This has been arrived at after charging:		
Depreciation of tangible fixed assets	3,397	2,835
Impairment of fixed assets/(reversal of impairment)	477	(362)
Amortisation of intangible assets	735	779
Auditors' remuneration:		
- audit fees	57	66
- taxation compliance services	24	26
- other non-audit fees	538	-
Operating leases – other	5,009	4,307
Net foreign exchange losses/(gains)	13	(18)
Inventories recognised as an expense	11,244	11,318
	<u> </u>	<u> </u>
The Audit fee is broken down as follows:		
Audit fees of the company	4	4
Audit fees of the group and subsidiaries	53	62
	<u> </u>	<u> </u>
Total audit fees	57	66
	<u> </u>	<u> </u>

Other non-audit fees relate to the sale of the business and have been included in exceptional items (see note 6).

8 Finance income and charges

	11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
Interest payable and similar charges:		
Bank loans	684	743
Shareholder loans	255	742
Mezzanine debt	-	475
Other group companies	132	-
Hire purchase	67	83
Amortisation of finance charges	804	177
	<u> </u>	<u> </u>
	1,942	2,220
Interest receivable and similar income:		
Other interest	(25)	(34)
	<u> </u>	<u> </u>
	1,917	2,186
	<u> </u>	<u> </u>

Frimley Topco Limited
Report and financial statements
for the 11 months ended 1 January 2017

Notes forming the Financial Statements (continued)

9 Taxation on profit from ordinary activities

	11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
<i>Current tax</i>		
UK corporation tax on profits for the period	1,870	1,684
Adjustment in respect of prior year	(40)	(46)
	<u>1,830</u>	<u>1,638</u>
<i>Deferred tax (note 17)</i>		
Origination and reversal of timing differences	(54)	290
Adjustment in respect of prior year	50	-
Effect of change in tax rates	26	-
	<u>1,852</u>	<u>1,928</u>
Total tax on profit	<u>1,852</u>	<u>1,928</u>

The tax assessed for the period is higher than the standard rate of corporation tax in the U.K. at 20.00% (2016: 20.16%). The differences are explained below:

	11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
Profit before tax	<u>4,392</u>	<u>8,146</u>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 20.00% (31 January 2016 - 20.16%)	878	1,642
Effects of:		
Expenses not deductible for tax purposes	940	349
Income not taxable	-	(88)
Under/(Over) provision in respect of prior years	10	(8)
Difference due to change in tax rates	24	69
Deferred tax not recognised	-	36
Deferred tax on business combination	-	(72)
Total tax charge for the period	<u>1,852</u>	<u>1,928</u>

On 16 March 2016, the UK Government passed legislation that resulted in the substantively enacted tax rate in the UK being 17% from 1 April 2020. This has had a subsequent effect on the deferred tax asset being recognised.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Notes forming the Financial Statements (continued)

10 Intangible assets

	Goodwill £'000	Franchise development fees £'000	Total £'000
<i>Cost</i>			
At 1 February 2016	14,729	902	15,631
Additions	-	210	210
At 1 January 2017	14,729	1,112	15,841
<i>Amortisation</i>			
At 1 February 2016	3,124	444	3,568
Amortisation	675	60	735
At 1 January 2017	3,799	504	4,303
<i>Net book value</i>			
At 1 January 2017	10,930	608	11,538
At 31 January 2016	11,605	458	12,063

Frimley Topco Limited

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Notes forming the Financial Statements (continued)

11 Property, plant and equipment

	Short-term leases and leasehold improvements £'000	Plant, machinery and motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
<i>Cost</i>				
At 1 February 2016	20,801	9,103	6,981	36,885
Additions	3,039	1,389	2,270	6,698
Disposals	(2)	-	-	(2)
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2017	23,838	10,492	9,251	43,581
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 February 2016	12,214	6,407	3,697	22,318
Charge for the period	1,869	899	629	3,397
Impairment	-	-	477	477
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2017	14,083	7,306	4,803	26,192
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 1 January 2017	9,755	3,186	4,448	17,389
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2016	8,587	2,696	3,284	14,567
	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of tangible fixed assets includes an amount of £679,000 (2016: £737,000) in respect of assets held under hire purchase contracts. The related depreciation charge on these assets for the period was £284,000 (2016: £348,000).

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Notes forming the Financial Statements (continued)

12 Financial assets

Company	Investments in subsidiary undertakings £'000
At 31 January 2016 and at 1 January 2017	-

The following investments were held at the end of the period:

Name of undertaking	Description of shares held	Principal activity	Shareholding
Frimley Bidco Limited	Ordinary shares of £0.01 each	Holding company	100%
Krispy Kreme U.K. Limited	Ordinary and deferred shares of £0.01 each	Trading company	100% *

* signifies an indirect holding

Frimley Topco Limited holds the entire issue share capital and voting rights of Frimley Bidco Limited.
Frimley Bidco Limited holds the entire issued share capital and voting rights of Krispy Kreme U.K. Limited.

All subsidiary undertakings are incorporated in England and Wales and are included in the group consolidation. The registered office of both subsidiaries is Unit 4, Albany Park, Frimley Road, Camberley, Surrey, GU16 7PQ.

13 Inventory

	Group 1 January 2017 £'000	Group 31 January 2016 £'000	Company 1 January 2017 £'000	Company 31 January 2016 £'000
Raw materials and consumables	1,155	867	-	-

There is no material difference between the replacement cost of stocks and the amounts stated above.

Frimley Topco Limited

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Notes forming the Financial Statements (continued)

14 Trade and other receivables

	Group 1 January 2017 £'000	Group 31 January 2016 £'000	Company 1 January 2017 £'000	Company 31 January 2016 £'000
Trade receivables	1,553	1,049	-	-
Other receivables	623	484	-	7
Amounts due from subsidiary undertakings	-	-	23,251	4,283
Amounts due from parent company	1,253	-	-	-
Prepayments and accrued income	1,889	1,209	-	-
Deferred Tax	404	426	-	-
	<u>5,722</u>	<u>3,168</u>	<u>23,251</u>	<u>4,290</u>

All amounts shown under debtors fall due within one year except for deferred tax (note 17).

15 Trade and other payables

	Group 1 January 2017 £'000	Group 31 January 2016 £'000	Company 1 January 2017 £'000	Company 31 January 2016 £'000
Bank loans (secured - see note 16)	-	2,425	-	-
Obligations under hire purchase contracts	327	367	-	-
Trade payables	4,439	3,126	-	-
Taxation and social security	596	329	200	-
Other payables	283	481	-	63
Accruals and deferred income	4,401	3,103	-	-
Amounts due to subsidiary undertakings	-	-	2,282	1,582
Corporation tax	647	562	-	-
	<u>10,693</u>	<u>10,393</u>	<u>2,482</u>	<u>1,645</u>

Trade and other payables comprise amounts outstanding for trade purchases and on-going costs. All trade and other payables are due in less than one year. All balances are denominated in Sterling.

Frimley Topco Limited

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Notes forming the Financial Statements (continued)

16 Non-current liabilities

	Group 1 January 2017 £'000	Group 31 January 2016 £'000	Company 1 January 2017 £'000	Company 31 January 2016 £'000
Bank loans (secured - see below)	-	20,811	-	-
Shareholder loan notes	-	3,093	-	3,093
Derivative financial instrument	-	37	-	-
Obligations under hire purchase contracts	868	389	-	-
Amounts due to parent company	25,245	-	25,245	-
	<u>26,113</u>	<u>24,330</u>	<u>25,245</u>	<u>3,093</u>

The directors consider the carrying value of all financial liabilities to be equivalent to their fair value. The Group's bank borrowings are secured by the Group's assets.

Details of the various borrowings shown above are given below:

Bank borrowings

Following a refinancing exercise, under which the mezzanine debt and part of the shareholder loan notes were repaid, from May 2015 the Group maintained the following bank facilities:

Facility A – principal of £8,000,000 repayable in five quarterly instalments of £667,000, followed by five quarterly instalments of £933,000, commencing February 2016. This loan facility attracted interest at LIBOR plus 3%.

Facility B – principal of £16,000,000 repayable by a single bullet payment in May 2019. This loan facility attracted interest at LIBOR plus 3.5%.

These bank loans were secured by a fixed and floating charge over the assets of Krispy Kreme U.K. Limited, and Frimley Bidco Limited, and a charge over the shares held by Frimley Topco Limited in Frimley Bidco Limited.

Intercompany borrowings

On 28 October 2016 as part of the sale and refinancing of the Group, both of the Group's bank loans were repaid in full and the security was released. They were replaced with a loan with the immediate parent company, Krispy Kreme Holding UK Limited, with principal of £25,106,000, repayable in five years. This loan facility attracts interest at UK LIBOR plus 2.75%. In addition the Group has a loan receivable from Krispy Kreme Holding UK Limited of £1,253,000 which is repayable on demand and accrues interest at the same rate.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Notes forming the Financial Statements (continued)

16 Non-current liability (continued)

Mezzanine debt

The Group maintained a mezzanine debt facility with a principal amount of £9,000,000. The loan facility attracted PIK interest at 7% per annum which was added to the principal amount, and a further 5% per annum payable quarterly. The principal amount and any accrued PIK interest was originally payable in full on 23 February 2016, but was repaid as part of the refinancing exercise in May 2015 referred to above.

The mezzanine debt was secured by a fixed and floating charge over all present and future undertaking and assets of Frimley Bidco Limited.

Shareholder loan notes

Until 28 October 2016, the Group maintained loans with various shareholders. The facilities attracted PIK interest ranging between 1% and 9% per annum which was added to the principal amount and was due for payment at the end of the loan term. The loans attracted further interest ranging from 2% to 9% per annum, payable quarterly. The principal amount and any accrued PIK interest was repayable in full on 30 September 2017, however as part of the sale of the Group and refinancing, all of the shareholder loans and accrued interest thereon were repaid on 28 October 2016.

Obligations under finance lease contracts

The Group has taken out various finance lease contracts on the purchase of property, plant and equipment. The arrangements attract interest ranging from 4% to 6%, are repayable over periods ranging between 1 year and 5 years and are secured on the assets to which they relate.

17 Deferred tax asset

	1 January 2017 £'000	31 January 2016 £'000
Group		
At 1 February 2016	426	716
Charged to profit and loss account	(22)	(290)
	<hr/>	<hr/>
At 1 January 2017	404	426
	<hr/>	<hr/>
Deferred tax consists of the following:		
Accelerated capital allowances	435	509
Other short term timing differences	4	19
Deferred tax on business combination	(35)	(102)
	<hr/>	<hr/>
	404	426
	<hr/>	<hr/>

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Notes forming the Financial Statements (continued)

18 Provision for liabilities

Group	Lease provision £'000
At 1 February 2016	261
Utilised in the period	(112)
Released to the profit and loss	(69)
	<hr/>
At 1 January 2017	80
	<hr/>

19 Share capital

	2017 Number	Allotted and called up 2016 Number	2017 £	2016 £
Ordinary shares of 1p each	110,500	9,211	1,205	92
'A1' ordinary shares of 1p each	-	49,846	-	499
'A2' ordinary shares of 1p each	-	20,995	-	210
'B' ordinary shares of 1p each	-	7,840	-	78
'C' ordinary shares of 1p each	-	900	-	9
'E' ordinary shares of 2p each	-	10,000	-	200
Deferred shares of 1p each	-	11,208	-	112
	<hr/>	<hr/>	<hr/>	<hr/>
	110,500	110,000	1,205	1,200
	<hr/>	<hr/>	<hr/>	<hr/>

On 21 December 2016 all classes of shares were redesignated as ordinary shares. All shares now rank equally in relation to distributions from the company.

All shares now rank equally on winding up and are entitled to a share in the surplus assets in proportion to the number of shares held at the distribution date.

All shares now rank equally with regards to voting at shareholder.

Frimley Topco Limited

Report and financial statements for the 11 months ended 1 January 2017

Notes forming the Financial Statements (continued)

20 Commitments under operating leases

The Group has leased various properties under non-cancellable operating lease agreements. These mainly relate to a number of retail outlets from which the Group operates.

As at 1 January 2017, the total future value of minimum lease payments due is set out below:

	Land and buildings 1 January 2017 £'000	Land and buildings 31 January 2016 £'000
Within one year	4,407	3,790
In two to five years	11,481	9,156
In over five years	6,249	4,616
	22,137	17,562

21 Related party transactions

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8 'Related party disclosures' not to disclose transactions with wholly owned companies within the group.

The following amounts payable to related parties are included in shareholder loan notes (including rolled up PIK) of £nil (2016: £3,093,000).

	Nature of Relationship	Interest 2017 £'000	Interest 2016 £'000	Loan Notes 2017 £'000	Loan Notes 2016 £'000
The Third Alcuin Fund LP	Shareholder	196	567	-	2,369
Indigo Capital V SARL	A wholly owned subsidiary of Indigo Capital V LP, Shareholder	26	76	-	320
The Burke Family Trust	Entity related to Haven Burke, Director	16	50	-	243

Frimley Topco Limited

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Notes forming the Financial Statements (continued)

22 Reserves

Share Premium

Includes any premiums received on issue of share capital.

Retained Earnings

Includes all current and prior period retained profits and losses.

Share Capital

Includes any funds received on issue of share capital.

23 Financial Instruments

Classification and measurement

Financial assets

	11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
Financial assets at amortised cost		
Trade receivables	1,553	1,049
Other receivables	623	484
Amounts due from parent company	1,253	-
Cash and cash equivalents	4,927	5,623
	<u>8,356</u>	<u>7,156</u>

Financial Liabilities

	Group 11m ended 1 January 2017 £'000	Year ended 31 January 2016 £'000
At fair value through profit and loss:		
Derivative financial instrument	-	37
At amortised cost:		
Trade payables	4,439	3,126
Other payables	285	481
Accruals	4,401	3,103
Obligations under hire purchase contracts	1,195	756
Amounts due to parent company	25,245	-
Bank loans	-	23,236
Shareholder loan notes	-	3,093
	<u>35,565</u>	<u>33,832</u>

The fair value of trade receivables and payables is considered to be equal to the carrying values of these items due to their short-term nature. Cash and cash equivalents are held with counterparties with a credit rating of AAA and BBB+.

Frimley Topco Limited

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Notes forming the Financial Statements (continued)

23 Financial Instruments (continued)

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk.

Risk management is carried out by the board of directors. The Group uses financial instruments to provide flexibility regarding its working capital requirements and to enable it to manage specific financial risks to which it is exposed.

(a) Market risk

i. Foreign exchange risk

The Group has only limited transactions directly denominated in currencies other than Sterling. Detailed policies and procedures are therefore not considered necessary to manage the Group's exposure to foreign exchange risk. The group does however purchase ingredients whose price may be impacted by foreign exchange movements.

ii. Interest rate risk

The Group has borrowings with other group companies, which bear interest at floating rates and finance lease which bear interest at fixed rates of 4-6%.

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates. If interest rates had been 10% higher/lower and all other variables were held constant, the Group's loss for the 11 months ended 1 January 2017 would decrease/increase by £82,000 (2016:£ 222,000). This is mainly attributable to the Group's exposure to interest rates on its floating rate borrowings.

The Group previously had an interest rate swap contract, under which it had agreed to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The interest rate swap was settled on 28 October 2016.

(b) Liquidity risk

The Group is both equity and debt funded and these two elements combine to make up the capital structure of the business. Equity comprises share capital, share premium and retained losses and is equal to the amount shown as 'Equity' in the balance sheet.

The Group's current objectives when maintaining capital are to:

Safeguard the Group's ability as a going concern so that it can continue to pursue its growth plans.
Provide a reasonable expectation of future returns to shareholders

Maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt.

During the periods ended 31 January 2016 and 1 January 2017 the Group's strategy remained unchanged.

Frimley Topco Limited

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Notes forming the Financial Statements (continued)

24 Pensions

The total pension cost charged to income of £208,000 (2016: £48,000) represents contributions payable to the defined contribution pension scheme. At 1 January 2017 contributions of £24,000 (2016: £23,000) due in respect of the current reporting year had not been paid over to the scheme.

25 Ultimate Controlling Party

The immediate parent company is Krispy Kreme Holding UK Limited. Frimley Topco Limited, incorporated in England and Wales, is the largest and smallest group of which the company is a member and for which group consolidated financial statements are prepared. The financial statements of the parent company are available to the public and can be obtained from the company's registered office, Unit 4, Albany Park, Frimley Road, Camberley, Surrey, GU16 7PQ.

JAB Holding s.a.r.l is considered to be the ultimate controlling party of the group following its acquisition of the group on 28 October 2016.