

**23.5 Degrees Topco Limited**  
**Financial Statements**  
**31 August 2017**



**THICKBROOM COVENTRY LIMITED**  
Chartered accountant & statutory auditor  
147a High Street  
Waltham Cross  
Hertfordshire  
EN8 7AP

## **23.5 Degrees Topco Limited**

### **Financial Statements**

**Year ended 31 August 2017**

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## 23.5 Degrees Topco Limited

### Strategic Report

Year ended 31 August 2017

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#### *Review of the business*

The principal activity of the group during the year was the operation of franchised Starbucks outlets.

The directors are delighted by the group's performance in the financial year, performing strongly in the existing business and opening 4 new stores, taking the total to 43 trading outlets. The group also had an extremely successful year in securing new sites for future development and increased the Starbucks approved development pipeline by 25 sites, underpinning the group's growth strategy for 2018 & 2019

The group's revenue grew to £20.4m, representing an increase of +25.1% on prior year and the group's EBITDA grew to £1.62m, an increase of +94.05% on prior year

23.5 Degrees is a private equity invested, dedicated Starbucks franchise chain with a business model focused on accelerated growth through new site development and ensuring that the group operate the Starbucks stores to the highest possible brand standards.

The group's performance this year is very encouraging, representing a strong foundation in year one of the five year business plan, with its ultimate commitment to expand to 144 stores. During the year Starbucks agreed to significantly increase the group's developmental territory and the directors are very confident that this will afford the group the opportunity of achieving the long term targets. The group already has +40 sites in the immediate pipeline and more than 100 potential locations within the group's territories.

#### *Financial risk management objectives and policies*

The company's principal financial instruments comprise bank balances, trade creditors and loans due to group companies. The main purpose of these instruments is to raise funds for the company's operations and to finance the company's operations.

Due to the nature of the financial instruments used by the company there is no exposure to price risk. The company's approach to managing other risks applicable to the financial instruments concerned is shown below.

In respect of bank balances the liquidity risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of overdrafts.

In respect of the loan due to the holding company, loan is interest free and repayable on demand. The company manages the liquidity risk by ensuring there are sufficient funds to meet the any repayments. Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due.

#### *Business risks*

The principal risks and uncertainties affecting the company can be summarised as follows:

##### (a) Current economic outlook

Changes in the country's economic conditions may impact consumer spending.

##### (b) Increased competition

Increased numbers of franchisees operating in the same geographical areas may impact the company's success at securing new sites at competitive rates. The directors are confident of counteracting these risks by continuing to strength its covenant for landlord security. With incoming private equity shareholders this year, the company has been able to counter these risks successfully.

## 23.5 Degrees Topco Limited

### Strategic Report *(continued)*

**Year ended 31 August 2017**

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#### *Future developments*

The business growth strategy has 3 areas of focus, referred to as the 3 cups:

In 'Cup 1' the group must maintain the improved profitability, whilst ensuring that the base remains stable as more stores are added to the group. The development of the staff team to progress through our training programme is vital as our baristas today are our store managers of tomorrow.

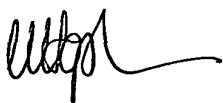
Cup 2 is the group's site delivery cup. The group takes the Starbucks approved stores through the legal and property challenges to deliver the new store to the operations team on day 1 of trading. The target for this financial year is to open 15 outlets.

Cup 3 is the group's property acquisition team who are scouring our territories in search of future new sites that will fit within the overall Starbucks estate whilst delivering against the stringent selection criteria guaranteeing trading success once open. The group is focusing primarily on Drive Thru locations.

The directors are very proud that they have a robust, but flexible and dedicated team who have worked tirelessly to develop the group to where it is today for the benefit of everyone.

The directors would like to thank them all for their efforts in the past 12 months, and for their continued commitment.

This report was approved by the board of directors on 29 November 2017 and signed on behalf of the board by:



Mr M Hepburn  
Director

Registered office:  
3 Hedge End Retail Park  
Charles Watts Way  
Hedge End  
Southampton  
SO30 4RT

## **23.5 Degrees Topco Limited**

### **Directors' Report**

**Year ended 31 August 2017**

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The directors present their report and the financial statements of the group for the year ended 31 August 2017.

#### **Directors**

The directors who served the company during the year were as follows:

Mr M Hepburn	
Mr PA Wittet	
Mr J B Cleland	(Appointed 1 March 2017)
Mrs A Hart	(Resigned 11 August 2017)
Mr M J Tait	(Resigned 31 January 2017)

#### **Dividends**

The directors do not recommend the payment of a dividend.

#### **Employment of disabled persons**

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

#### **Employee involvement**

During the period, the policy of providing employees with information about the group has been continued and employees have also been encouraged to present their suggestions and views on the group's performance. Regular meetings are held between management staff and employees to allow a free flow of information and ideas.

#### **Events after the end of the reporting period**

Particulars of events after the reporting date are detailed in note 27 to the financial statements.

#### **Disclosure of information in the strategic report**

The group has prepared a Strategic Report in accordance with section 414C(11) of the Companies Act 2006 and (Strategic Report and Directors' Report) Regulations 2013.

#### **Directors' responsibilities statement**

The directors are responsible for preparing the strategic report, 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 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 the company and the profit or loss of the group for that period.

## 23.5 Degrees Topco Limited

### Directors' Report *(continued)*

**Year ended 31 August 2017**

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In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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.

#### **Auditor**

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the group and the company's auditor is unaware; and
- they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the group and the company's auditor is aware of that information.

This report was approved by the board of directors on 29 November 2017 and signed on behalf of the board by:



Mr M Hepburn  
Director

Registered office:  
3 Hedge End Retail Park  
Charles Watts Way  
Hedge End  
Southampton  
SO30 4RT

## **23.5 Degrees Topco Limited**

### **Independent Auditor's Report to the Members of 23.5 Degrees Topco Limited**

**Year ended 31 August 2017**

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#### **Opinion**

We have audited the financial statements of 23.5 Degrees Topco Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 August 2017 which comprise the consolidated statement of comprehensive income, consolidated statement of financial position, company statement of financial position, consolidated statement of changes in equity, company statement of changes in equity, consolidated statement of cash flows and the related notes, 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 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (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.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 August 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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. We are independent of the group 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 group's or the parent 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.

## **23.5 Degrees Topco Limited**

### **Independent Auditor's Report to the Members of 23.5 Degrees Topco Limited** (continued)

**Year ended 31 August 2017**

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#### **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 our 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 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 this 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 the directors' report have been prepared in accordance with applicable legal requirements.

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

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

- adequate accounting records have not been kept 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.



## **23.5 Degrees Topco Limited**

### **Independent Auditor's Report to the Members of 23.5 Degrees Topco Limited** (continued)

**Year ended 31 August 2017**

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#### **Responsibilities of directors**

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

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent 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 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.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
  - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
  - Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.
  - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
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## 23.5 Degrees Topco Limited

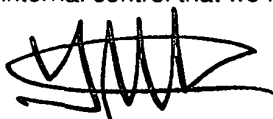
### Independent Auditor's Report to the Members of 23.5 Degrees Topco Limited (continued)

Year ended 31 August 2017

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Joseph Illes ACA (Senior Statutory Auditor)

For and on behalf of  
Thickbroom Coventry Limited  
Chartered accountant & statutory auditor  
147a High Street  
Waltham Cross  
Hertfordshire  
EN8 7AP

29 November 2017

## 23.5 Degrees Topco Limited

### Consolidated Statement of Comprehensive Income

Year ended 31 August 2017

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	Note	2017 £	2016 £
<b>Turnover</b>	<b>4</b>	20,418,206	16,320,671
Cost of sales		12,502,129	9,973,092
<b>Gross profit</b>		7,916,077	6,347,579
Administrative expenses		8,780,889	8,829,104
<b>Operating loss</b>	<b>5</b>	(864,812)	(2,481,525)
Income from other fixed asset investments	<b>9</b>	—	2,962
Interest payable and similar expenses	<b>10</b>	229,314	208,239
<b>Loss before taxation</b>		(1,094,126)	(2,686,802)
Tax on loss	<b>11</b>	(65,970)	(663,541)
<b>Loss for the financial year and total comprehensive income</b>		<u>(1,028,156)</u>	<u>(2,023,261)</u>

All the activities of the group are from continuing operations.

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The notes on pages 15 to 28 form part of these financial statements.

## 23.5 Degrees Topco Limited

### Consolidated Statement of Financial Position

31 August 2017

	Note	2017 £	2016 £
<b>Fixed assets</b>			
Intangible assets	12	4,589,718	5,056,336
Tangible assets	13	7,331,778	6,144,133
		<u>11,921,496</u>	<u>11,200,469</u>
<b>Current assets</b>			
Stocks	15	168,587	86,874
Debtors	16	1,200,422	1,204,540
Cash at bank and in hand		1,322,448	1,043,469
		<u>2,691,457</u>	<u>2,334,883</u>
<b>Creditors: amounts falling due within one year</b>	17	4,430,154	4,436,885
<b>Net current liabilities</b>		<u>1,738,697</u>	<u>2,102,002</u>
<b>Total assets less current liabilities</b>		10,182,799	9,098,467
<b>Creditors: amounts falling due after more than one year</b>	18	6,275,836	4,127,410
<b>Provisions</b>	19	(729,511)	(663,541)
<b>Net assets</b>		<u>4,636,474</u>	<u>5,634,598</u>
<b>Capital and reserves</b>			
Called up share capital	23	1,394	1,362
Share premium account	24	7,686,497	7,656,497
Profit and loss account	24	(3,051,417)	(2,023,261)
<b>Shareholders funds</b>		<u>4,636,474</u>	<u>5,634,598</u>

These financial statements were approved by the board of directors and authorised for issue on 29 November 2017, and are signed on behalf of the board by:



Mr M Hepburn  
Director

Company registration number: 09180152

The notes on pages 15 to 28 form part of these financial statements.

## 23.5 Degrees Topco Limited

### Company Statement of Financial Position

31 August 2017

	Note	2017 £	2016 £
<b>Fixed assets</b>			
Investments	14	2,500,100	2,500,100
<b>Current assets</b>			
Debtors	16	4,333,114	4,314,657
<b>Net current assets</b>		<u>4,333,114</u>	<u>4,314,657</u>
<b>Total assets less current liabilities</b>		6,833,214	6,814,757
<b>Creditors: amounts falling due after more than one year</b>	18	465,836	477,411
<b>Provisions</b>	19	<u>(155,215)</u>	<u>(155,215)</u>
<b>Net assets</b>		<u>6,522,593</u>	<u>6,492,561</u>
<b>Capital and reserves</b>			
Called up share capital	23	1,394	1,362
Share premium account	24	7,686,497	7,656,497
Profit and loss account	24	<u>(1,165,298)</u>	<u>(1,165,298)</u>
<b>Shareholders funds</b>		<u>6,522,593</u>	<u>6,492,561</u>

The profit for the financial year of the parent company was £Nil (2016: £1,165,298 loss).

These financial statements were approved by the board of directors and authorised for issue on 29 November 2017, and are signed on behalf of the board by:



Mr M Hepburn  
Director

Company registration number: 09180152

The notes on pages 15 to 28 form part of these financial statements.

## 23.5 Degrees Topco Limited

### Consolidated Statement of Changes in Equity

Year ended 31 August 2017

	Called up share capital £	Share premium account £	Profit and loss account £	Total £
<b>At 1 September 2015</b>	1	–	–	1
Loss for the year	–	–	(2,023,261)	(2,023,261)
<b>Total comprehensive income for the year</b>	–	–	(2,023,261)	(2,023,261)
Issue of shares	1,361	7,656,497	–	7,657,858
<b>Total investments by and distributions to owners</b>	1,361	7,656,497	–	7,657,858
<b>At 31 August 2016</b>	1,362	7,656,497	(2,023,261)	5,634,598
Loss for the year	–	–	(1,028,156)	(1,028,156)
<b>Total comprehensive income for the year</b>	–	–	(1,028,156)	(1,028,156)
Issue of shares	32	30,000	–	30,032
<b>Total investments by and distributions to owners</b>	32	30,000	–	30,032
<b>At 31 August 2017</b>	1,394	7,686,497	(3,051,417)	4,636,474

The notes on pages 15 to 28 form part of these financial statements.

## 23.5 Degrees Topco Limited

### Company Statement of Changes in Equity

Year ended 31 August 2017

	Called up share capital £	Share premium account £	Profit and loss account £	Total £
<b>At 1 September 2015</b>	1	—	—	1
Loss for the year	—	—	(1,165,298)	(1,165,298)
<b>Total comprehensive income for the year</b>	—	—	(1,165,298)	(1,165,298)
Issue of shares	1,361	7,656,497	—	7,657,858
<b>Total investments by and distributions to owners</b>	1,361	7,656,497	—	7,657,858
<b>At 31 August 2016</b>	1,362	7,656,497	(1,165,298)	6,492,561
Loss for the year	—	—	—	—
Issue of shares	32	30,000	—	30,032
<b>Total investments by and distributions to owners</b>	32	30,000	—	30,032
<b>At 31 August 2017</b>	<u>1,394</u>	<u>7,686,497</u>	<u>(1,165,298)</u>	<u>6,522,593</u>

The notes on pages 15 to 28 form part of these financial statements.

## 23.5 Degrees Topco Limited

### Consolidated Statement of Cash Flows

Year ended 31 August 2017

	2017 £	2016 £
<b>Cash flows from operating activities</b>		
Loss for the financial year	(1,028,156)	(2,023,261)
<i>Adjustments for:</i>		
Depreciation of tangible assets	1,380,646	1,006,564
Amortisation of intangible assets	566,618	536,363
Income from other fixed asset investments	—	(2,962)
Interest payable and similar expenses	229,314	208,239
Tax on loss	(65,970)	(663,541)
Accrued expenses	119,136	1,581,812
<i>Changes in:</i>		
Stocks	(81,713)	(86,874)
Trade and other debtors	4,118	(1,204,540)
Trade and other creditors	124,133	2,605,073
Cash generated from operations	1,248,126	1,956,873
Interest paid	(229,314)	(208,239)
Net cash from operating activities	<u>1,018,812</u>	<u>1,748,634</u>
<b>Cash flows from investing activities</b>		
Purchase of tangible assets	(2,568,291)	(7,150,697)
Purchase of intangible assets	(100,000)	(5,592,699)
Dividends received	—	2,962
Net cash used in investing activities	<u>(2,668,291)</u>	<u>(12,740,434)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares	30,032	7,657,858
Proceeds from borrowings	1,898,426	4,377,410
Net cash from financing activities	<u>1,928,458</u>	<u>12,035,268</u>
<b>Net increase in cash and cash equivalents</b>	278,979	1,043,468
<b>Cash and cash equivalents at beginning of year</b>	<u>1,043,469</u>	<u>1</u>
<b>Cash and cash equivalents at end of year</b>	<u>1,322,448</u>	<u>1,043,469</u>

The notes on pages 15 to 28 form part of these financial statements.



## 23.5 Degrees Topco Limited

### Notes to the Financial Statements

Year ended 31 August 2017

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#### 1. General information

The company is a private company limited by shares, registered in England and Wales. The address of the registered office is 3 Hedge End Retail Park, Charles Watts Way, Hedge End, Southampton, SO30 4RT.

#### 2. Statement of compliance

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

#### 3. Accounting policies

##### Basis of preparation

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities and investment properties measured at fair value through profit or loss.

The financial statements are prepared in sterling, which is the functional currency of the entity.

##### Statutory information

23.5 Degrees Topco Limited is a private company, limited by shares, incorporated and domiciled in England and Wales, registration number 09180152. The registered office is Unit 3, Hedge End Retail Park, Charles Watts Way, Southampton, Hampshire, SO30 4RT.

##### Disclosure exemptions

The parent company satisfies the criteria of being a qualifying entity as defined in FRS 102. As such, advantage has been taken of the following reduced disclosures available under FRS 102:

- (a) Disclosures in respect of each class of share capital have not been presented.
- (b) No cash flow statement has been presented for the company.
- (c) Disclosures in respect of financial instruments have not been presented.
- (d) No disclosure has been given for the aggregate remuneration of key management personnel.

##### Consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and written off over ten years from the year of acquisition. The results of companies acquired or disposed of are included in the group profit and loss account after or up to the date that control passes respectively. As a consolidated group profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 408 of the Companies Act 2006.

## 23.5 Degrees Topco Limited

### Notes to the Financial Statements *(continued)*

Year ended 31 August 2017

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#### 3. Accounting policies *(continued)*

##### **Judgements and key sources of estimation uncertainty**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### **Significant judgements**

The judgements (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are as follows:

(Enter detail of the judgements made.)

##### **Key sources of estimation uncertainty**

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(Enter detail of the nature of the assumption or other key source of estimation uncertainty as well as the carrying amount as at the end of the reporting period.)

##### **Revenue recognition**

Turnover is measured at the fair value of the consideration received or receivable for goods supplied and services rendered, net of discounts and Value Added Tax.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have transferred to the buyer (usually on despatch of the goods); the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the entity; and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

##### **Income tax**

The taxation expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

## 23.5 Degrees Topco Limited

### Notes to the Financial Statements *(continued)*

Year ended 31 August 2017

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#### 3. Accounting policies *(continued)*

##### **Income tax *(continued)***

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

##### **Operating leases**

Lease payments are recognised as an expense over the lease term on a straight-line basis. The aggregate benefit of lease incentives is recognised as a reduction to expense over the lease term, on a straight-line basis.

##### **Goodwill**

Goodwill arises on business acquisitions and represents the excess of the cost of the acquisition over the company's interest in the net amount of the identifiable assets, liabilities and contingent liabilities of the acquired business.

Goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. It is amortised on a straight-line basis over its useful life. Where a reliable estimate of the useful life of goodwill or intangible assets cannot be made, the life is presumed not to exceed ten years.

##### **Intangible assets**

Intangible assets are initially recorded at cost, and are subsequently stated at cost less any accumulated amortisation and impairment losses. Any intangible assets carried at revalued amounts, are recorded at the fair value at the date of revaluation, as determined by reference to an active market, less any subsequent accumulated amortisation and subsequent accumulated impairment losses.

Intangible assets acquired as part of a business combination are recorded at the fair value at the acquisition date.

##### **Amortisation**

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful life of that asset as follows:

Goodwill	-	10% straight line
Franchise fees	-	10% straight line
Goodwill on consolidation	-	10% straight line

If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new estimates.

## 23.5 Degrees Topco Limited

### Notes to the Financial Statements *(continued)*

Year ended 31 August 2017

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#### 3. Accounting policies *(continued)*

##### **Tangible assets**

Tangible assets are initially recorded at cost, and subsequently stated at cost less any accumulated depreciation and impairment losses. Any tangible assets carried at revalued amounts are recorded at the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation, is recognised in other comprehensive income and accumulated in equity, except to the extent it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A decrease in the carrying amount of an asset as a result of revaluation, is recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity in respect of that asset. Where a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss.

##### **Depreciation**

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

Long leasehold property	-	10% straight line
Plant and machinery	-	20% straight line
Fixtures and fittings	-	20% straight line
Computer equipment	-	33% straight line

##### **Investments**

Fixed asset investments are initially recorded at cost, and subsequently stated at cost less any accumulated impairment losses.

Listed investments are measured at fair value with changes in fair value being recognised in profit or loss.

##### **Impairment of fixed assets**

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

For the purposes of impairment testing, when it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that largely independent of the cash inflows from other assets or groups of assets.

For impairment testing of goodwill, the goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the company are assigned to those units.

## 23.5 Degrees Topco Limited

### Notes to the Financial Statements *(continued)*

Year ended 31 August 2017

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#### 3. Accounting policies *(continued)*

##### **Stocks**

Stocks are measured at the lower of cost and estimated selling price less costs to complete and sell. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the stock to its present location and condition.

##### **Provisions**

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the statement of financial position and the amount of the provision as an expense.

Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

##### **Financial instruments**

A financial asset or a financial liability is recognised only when the company becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Where investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are publicly traded or their fair value can otherwise be measured reliably, the investment is subsequently measured at fair value with changes in fair value recognised in profit or loss. All other such investments are subsequently measured at cost less impairment.

Other financial instruments, including derivatives, are initially recognised at fair value, unless payment for an asset is deferred beyond normal business terms or financed at a rate of interest that is not a market rate, in which case the asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Other financial instruments are subsequently measured at fair value, with any changes recognised in profit or loss, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

## 23.5 Degrees Topco Limited

### Notes to the Financial Statements *(continued)*

Year ended 31 August 2017

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#### 3. Accounting policies *(continued)*

##### Financial instruments *(continued)*

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in profit or loss immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised.

##### Defined contribution plans

Contributions to defined contribution plans are recognised as an expense in the period in which the related service is provided. Prepaid contributions are recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. The unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

#### 4. Turnover

Turnover arises from:

	2017	2016
	£	£
Sale of goods	20,418,206	16,320,671

The whole of the turnover is attributable to the principal activity of the group wholly undertaken in the United Kingdom.

#### 5. Operating profit

Operating profit or loss is stated after charging:

	2017	2016
	£	£
Amortisation of intangible assets	566,618	536,363
Depreciation of tangible assets	1,380,646	1,006,564

#### 6. Auditor's remuneration

	2017	2016
	£	£
Fees payable for the audit of the financial statements	20,000	10,500
Fees payable to the company's auditor and its associates for other services:		
Taxation advisory services	—	1,123

## 23.5 Degrees Topco Limited

### Notes to the Financial Statements *(continued)*

Year ended 31 August 2017

#### 7. Staff costs

The average number of persons employed by the group during the year, including the directors, amounted to:

	2017 No.	2016 No.
Production staff	988	438
Administrative staff	13	16
Number of other staff - desc in a/c	(494)	—
	<u>507</u>	<u>454</u>

The aggregate payroll costs incurred during the year, relating to the above, were:

	2017 £	2016 £
Wages and salaries	5,679,825	4,985,154
Social security costs	286,121	275,079
Other pension costs	9,059	9,601
	<u>5,975,005</u>	<u>5,269,834</u>

#### 8. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services was:

	2017 £	2016 £
Remuneration	<u>285,737</u>	<u>451,496</u>

Remuneration of the highest paid director in respect of qualifying services:

	2017 £	2016 £
Aggregate remuneration	<u>182,070</u>	<u>158,028</u>

#### 9. Income from other fixed asset investments

	2017 £	2016 £
Income from other fixed asset investments	<u>—</u>	<u>2,962</u>

#### 10. Interest payable and similar expenses

	2017 £	2016 £
Interest on banks loans and overdrafts	1,325	101
Other interest payable and similar charges	227,989	208,138
	<u>229,314</u>	<u>208,239</u>

## 23.5 Degrees Topco Limited

### Notes to the Financial Statements *(continued)*

Year ended 31 August 2017

#### 11. Tax on loss

##### Major components of tax income

	2017 £	2016 £
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(65,970)	(663,541)
<b>Tax on loss</b>	<u>(65,970)</u>	<u>(663,541)</u>

##### Reconciliation of tax income

The tax assessed on the loss on ordinary activities for the year is higher than (2016: lower than) the standard rate of corporation tax in the UK of 19% (2016: 20%).

	2017 £	2016 £
Loss on ordinary activities before taxation	(1,094,126)	(2,686,802)
Loss on ordinary activities by rate of tax	(207,884)	(537,361)
Adjustment to tax charge in respect of prior periods	25,416	(330,207)
Effect of expenses not deductible for tax purposes	116,498	204,027
<b>Tax on loss</b>	<u>(65,970)</u>	<u>(663,541)</u>

#### 12. Intangible assets

Group	Goodwill £	Franchise fees £	Goodwill on consolidation £	Total £
<b>Cost</b>				
At 1 September 2016	2,846,115	456,042	2,290,542	5,592,699
Additions	—	100,000	—	100,000
<b>At 31 August 2017</b>	<u>2,846,115</u>	<u>556,042</u>	<u>2,290,542</u>	<u>5,692,699</u>
<b>Amortisation</b>				
At 1 September 2016	267,986	39,322	229,055	536,363
Charge for the year	284,612	52,952	229,054	566,618
<b>At 31 August 2017</b>	<u>552,598</u>	<u>92,274</u>	<u>458,109</u>	<u>1,102,981</u>
<b>Carrying amount</b>				
<b>At 31 August 2017</b>	<u>2,293,517</u>	<u>463,768</u>	<u>1,832,433</u>	<u>4,589,718</u>
At 31 August 2016	<u>2,578,129</u>	<u>416,720</u>	<u>2,061,487</u>	<u>5,056,336</u>

The company has no intangible assets.



## 23.5 Degrees Topco Limited

### Notes to the Financial Statements (continued)

Year ended 31 August 2017

#### 12. Intangible assets (continued)

Goodwill includes the amount paid in excess of market value for a bundle store acquisition in September 2015. This is being amortised on a straight line basis over 10 years.

Goodwill on consolidation is the amount paid in excess of the balance sheet value of the subsidiaries acquired in September 2015. This is being amortised on a straight line basis over 10 years.

#### 13. Tangible assets

Group	Long leasehold property £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Total £
<b>Cost</b>					
At 1 September 2016	3,069,303	568,118	3,340,542	172,734	7,150,697
Additions	1,740,863	352,735	323,225	151,468	2,568,291
<b>At 31 August 2017</b>	<u>4,810,166</u>	<u>920,853</u>	<u>3,663,767</u>	<u>324,202</u>	<u>9,718,988</u>
<b>Depreciation</b>					
At 1 September 2016	246,702	67,230	630,525	62,107	1,006,564
Charge for the year	382,827	138,963	767,449	91,407	1,380,646
<b>At 31 August 2017</b>	<u>629,529</u>	<u>206,193</u>	<u>1,397,974</u>	<u>153,514</u>	<u>2,387,210</u>
<b>Carrying amount</b>					
<b>At 31 August 2017</b>	<u>4,180,637</u>	<u>714,660</u>	<u>2,265,793</u>	<u>170,688</u>	<u>7,331,778</u>
At 31 August 2016	<u>2,822,601</u>	<u>500,888</u>	<u>2,710,017</u>	<u>110,627</u>	<u>6,144,133</u>

The company has no tangible assets.

#### 14. Investments

The group has no investments.

Company	Shares in group undertakings £
<b>Cost</b>	
At 1 September 2016 and 31 August 2017	<u>2,500,100</u>
<b>Impairment</b>	
At 1 September 2016 and 31 August 2017	<u>—</u>

## 23.5 Degrees Topco Limited

### Notes to the Financial Statements *(continued)*

Year ended 31 August 2017

#### 14. Investments *(continued)*

Company	Shares in group undertakings £
<b>Carrying amount</b>	
At 1 September 2016 and 31 August 2017	2,500,100
At 31 August 2016	<u>2,500,100</u>

#### **Subsidiaries, associates and other investments**

Details of the investments in which the parent company has an interest of 20% or more are as follows:

	Class of share	Percentage of shares held
<b>Subsidiary undertakings</b>		
23.5 Degrees Holdings Limited	Ordinary	100
23.5 Degrees Limited	Ordinary	100

The subsidiaries were acquired on 1 September 2015.

#### 15. Stocks

	<b>Group</b>		<b>Company</b>	
	2017	2016	2017	2016
	£	£	£	£
Finished goods and goods for resale	<u>168,587</u>	<u>86,874</u>	<u>—</u>	<u>—</u>

#### 16. Debtors

	<b>Group</b>		<b>Company</b>	
	2017	2016	2017	2016
	£	£	£	£
Amounts owed by group undertakings	—	—	4,313,987	4,314,138
Called up share capital not paid	99	99	—	—
Prepayments and accrued income	1,181,196	1,203,253	—	—
Other debtors	<u>19,127</u>	<u>1,188</u>	<u>19,127</u>	<u>519</u>
	<u>1,200,422</u>	<u>1,204,540</u>	<u>4,333,114</u>	<u>4,314,657</u>

## 23.5 Degrees Topco Limited

### Notes to the Financial Statements *(continued)*

Year ended 31 August 2017

#### 17. Creditors: amounts falling due within one year

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Bank loans and overdrafts	–	250,000	–	–
Trade creditors	2,296,310	2,269,692	–	–
Accruals and deferred income	1,700,948	1,581,812	–	–
Social security and other taxes	432,896	335,381	–	–
	<u>4,430,154</u>	<u>4,436,885</u>	<u>–</u>	<u>–</u>

#### 18. Creditors: amounts falling due after more than one year

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Bank loans and overdrafts	<u>6,275,836</u>	<u>4,127,410</u>	<u>465,836</u>	<u>477,411</u>

The bank loans are repayable as follows:

The loan with Royal Bank of Scotland is repayable by quarterly instalments of £62,500 to 31 August 2018 with the balance being repayable on 22 September 2018. Interest is charged at LIBOR.

The loan with Connection Capital LLP is not repayable by instalments. The loan is repayable in full by 22 September 2020, there are annual management and monitoring fees payable of 3%.

#### 19. Provisions

Group	Deferred tax (note 20)
	£
At 1 September 2016	(663,541)
Charge against provision	<u>(65,970)</u>
<b>At 31 August 2017</b>	<b><u>(729,511)</u></b>
<b>Company</b>	<b>Deferred tax (note 20)</b>
	£
At 1 September 2016	(155,215)
<b>At 31 August 2017</b>	<b><u>(155,215)</u></b>

## 23.5 Degrees Topco Limited

### Notes to the Financial Statements *(continued)*

Year ended 31 August 2017

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#### 20. Deferred tax

The deferred tax included in the statement of financial position is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Included in provisions (note 19)	<u>(729,511)</u>	<u>(663,541)</u>	<u>(155,215)</u>	<u>(155,215)</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Accelerated capital allowances	17,332	44,759	–	–
Unused tax losses	<u>(746,843)</u>	<u>(708,300)</u>	<u>(155,215)</u>	<u>(155,215)</u>
	<u>(729,511)</u>	<u>(663,541)</u>	<u>(155,215)</u>	<u>(155,215)</u>

#### 21. Employee benefits

##### Defined contribution plans

The amount recognised in profit or loss as an expense in relation to defined contribution plans was £9,059 (2016: £9,601).

#### 22. Financial instruments

The company's principal financial instruments comprise bank balances, trade creditors and loans due to group companies. The main purpose of these instruments is to raise funds for the company's operations and to finance the company's operations.

Due to the nature of the financial instruments used by the company there is no exposure to price risk. The company's approach to managing other risks applicable to the financial instruments concerned is shown below.

In respect of bank balances the liquidity risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of overdrafts.

In respect of the loan due to the holding company, loan is interest free and repayable on demand. The company manages the liquidity risk by ensuring there are sufficient funds to meet the any repayments. Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due.

## 23.5 Degrees Topco Limited

### Notes to the Financial Statements *(continued)*

Year ended 31 August 2017

#### 23. Called up share capital

##### Issued, called up and fully paid

	2017		2016	
	No.	£	No.	£
<b>Amounts presented in equity:</b>				
Ordinary shares of £0.000001 each	513,744,000	514	513,744,000	514
Ordinary A shares of £0.000001 each	250,000,000	250	250,000,000	250
Ordinary B shares of £0.01 each	37,783	378	37,783	378
Ordinary C shares of £0.01 each	25,196	252	22,040	220
Ordinary D shares of £0.000001 each	100,000	–	100,000	–
	<u>763,906,979</u>	<u>1,394</u>	<u>763,903,823</u>	<u>1,362</u>
<b>Amounts presented in liabilities:</b>				
Preference shares of £0.000001 each	<u>22,400</u>	<u>–</u>	<u>22,400</u>	<u>–</u>

##### Share movements

	No.	£
Ordinary C		
At 1 September 2016	22,040	220
Issue of shares	<u>3,156</u>	<u>32</u>
<b>At 31 August 2017</b>	<u>25,196</u>	<u>252</u>

The number of shares outstanding at the year end date for all other classes of shares is consistent with the prior year.

On 12 December 2016 the company issued a further 3156 ordinary "C" shares of £0.01 each to rank pari passu with the existing shares of the same class.

This change is shown in the above share capital disclosure.

All shares have full voting, dividend and capital distribution (including on winding up) rights; they do not contain any right of redemption.

#### 24. Reserves

Share premium account - This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Profit and loss account - This reserve records retained earnings and accumulated losses.

## 23.5 Degrees Topco Limited

### Notes to the Financial Statements *(continued)*

#### Year ended 31 August 2017

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#### 25. Capital commitments

Capital expenditure contracted for but not provided for in the financial statements is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Tangible assets	<u>206,745</u>	<u>306,270</u>	<u>—</u>	<u>—</u>

As at the year-ended 31 August 2017 the group had committed to opening one new store with a total capital commitment as noted above.

#### 26. Operating leases

The total future minimum lease payments under non-cancellable operating leases are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Not later than 1 year	2,586,334	2,272,334	—	—
Later than 1 year and not later than 5 years	7,759,002	6,817,002	—	—
Later than 5 years	<u>15,698,632</u>	<u>13,612,118</u>	<u>—</u>	<u>—</u>
	<u>26,043,968</u>	<u>22,701,454</u>	<u>—</u>	<u>—</u>

#### 27. Events after the end of the reporting period

There have been no significant events affecting the group since the year-end.