

Storm Equity Co Ltd

Report and Financial Statements

31 May 2022

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Company Information

Registered No. 11776567

Directors

G W Ford

B J Price

Secretary

J H Stewart

Auditor

Ernst & Young LLP

1 More London Place

London SE1 2AF

Registered Office

9-15 Neal Street,

London

WC2H 9QL

United Kingdom

Registered No. 11776567

Director's report

The directors present their report and financial statements for the year ended 31 May 2022.

Principal activities and business review

Storm Equity Co Ltd is a parent undertaking that owns the share capital of Storm Holdco Ltd. Due to its principal activity being a parent undertaking, the directors do not consider specific key performance indicators to exist, its investments are performing in line with expectations.

The Company is one of a group of companies set up to facilitate the acquisition of Coffee #1 Ltd in 2019 by its ultimate parent.

Coffee #1

In February 2022, the Group acquired an additional 33% of its subsidiary Coffee #1 from SA Brain. SA Brain had been the previous owner and had retained a 33% minority stake upon selling the majority to the Group. This new development takes the Group's ownership of Coffee #1 to 76.5%. (The results of Coffee #1 are fully consolidated in these financial statements with a minority interest shown).

Results and dividends

The Company generated a profit before taxation of £0.1m (2021 – profit of £3.5m). No dividend is proposed.

The results of Storm Equity Co Ltd are also reported within the wider Group accounts of The Nero Group Ltd ('the Group') and Caffè Nero Group Holdings Ltd.

Directors

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

G W Ford

B J Price

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as they fall due for the foreseeable future. In forming this expectation, the directors have received confirmation of parental support and that the Company's fellow group undertakings will not seek repayment of their intra-group loans presented as current liabilities until such time as the Company is able to repay these liabilities. The Company is controlled by the Nero Group Limited, and in making their assessment the directors have therefore considered the going concern position of the Nero Group Limited, which is explained below.

The directors have looked out to November 2023 to make their going concern assessment, being the period over which there is the most visibility. The directors have prepared detailed forecasts and cash flow projection models which have been stress tested to allow them to assess the going concern assumption. These forecasts indicate that the Group can continue as a going concern under a base case scenario and after stress tests are applied. These stress tests factored in current economic conditions including inflationary adjustments. As at the date of signing these accounts, sales had reached approximately 110% of pre-Covid 19 levels, which is on target with our forecasts.

Material uncertainties were identified in the FY21 annual report. In the 12 months that have since elapsed, each of these material uncertainties has been either closed or considered as normal business risk and not material:

1. Regarding trading and Covid-19, sales have now reached 110% of pre-Covid levels (compared to 80-85% a year ago). This is in line with the Group's latest forecasts. Although Covid-19 and associated restrictions could return the Group considers that the risk of this is significantly reduced compared to a year ago.

2. The CVA challenge was dismissed just prior to signing the accounts last year although some uncertainty remained as to whether the judgement could be appealed. Since then, the challenger declined to appeal and indeed made a settlement as to the Group's costs. The case is now closed.
3. The Group successfully refinanced all of its facilities in January 2022. Additional headroom and flexibilities were negotiated which puts the Group in a firmer financial position than was the case under the previous debt structure.

Having made due and careful enquiry, the directors have satisfied themselves that the Group and Parent Company should continue to adopt the going concern basis in preparing its financial statements.

Small companies note

In preparing the report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

Disclosure of information to the auditor

The directors who were members of the Board at the time of approving the Directors' report are set out on page 1. Having made enquiries of fellow directors and the Group auditor, each of these directors confirms that:

- a) to the best of each director's knowledge and belief, there is no relevant audit information of which the Group auditors are unaware; and
- b) each director has taken all the steps a director might reasonably be expected to have taken to be aware of the relevant audit information and to establish that the Group auditors are aware of that information..

Reappointment of auditor

In accordance with section 487 of the Companies Act 2006, the Company has elected to dispense with the obligation under section 485 of the Companies Act 2006 to appoint auditors annually. Ernst & Young LLP are deemed to continue in office until further notice.

On behalf of the Board



Ben Price
Director
10th October 2022

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STORM EQUITY CO LIMITED

Opinion

We have audited the financial statements of Storm Equity Co Limited (the 'company') for the year ended 31 May 2022, which comprise the statement of comprehensive income, statement of financial position, statement of changes in shareholders equity and the related notes 1 to 11, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 May 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period from when the financial statements are authorised for issue, to 30 November 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 contained within the annual report.

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

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 course of 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 this gives to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- *the directors' report has been prepared in accordance with applicable legal requirements.*

Matters on which we are required to report by exception

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

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

- *adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or*
- *the financial statements are not in agreement with the accounting records and returns; or*
- *certain disclosures of directors' remuneration specified by law are not made; or*
- *we have not received all the information and explanations we require for our audit; or*
- *the directors were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.*

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud is explained below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (United Kingdom Generally Accepted Accounting Practice), the relevant direct and indirect tax compliance regulation in the United Kingdom, employment laws in the relevant jurisdictions and reporting obligations in the UK including the Modern Slavery Act. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, data protection and anti-bribery and corruption.
- We understood how the Company is complying with those frameworks by making enquiries of management and those charged with governance to understand how the Company maintains its policies and procedures in these areas and corroborated this by reviewing supporting documentation such as the Code of Conduct and correspondence with group legal advisors.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved reviewing minutes from the Board of Directors, and enquiries of management, including the existence of significant unusual transactions.

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

Use of our report

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



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

18/10/2022

Statement of Comprehensive Income

For the year ended 31 May 2022

	Notes	2022 £000	2021 £000
Administrative expenses		-	(43)
Movement in fair value of options		(70)	3,440
Interest receivable		120	120
Profit before taxation		50	3,517
Income tax	3	(115)	(22)
Profit for the year		(65)	3,495
Other comprehensive income		-	-
Total comprehensive income		(65)	3,495

All amounts relate to continuing activities.

Statement of Financial Position

at 31 May 2022

	Notes	2022 £000	2021 £000
Fixed assets			
Investments	4	22,274	9,903
Fair value call option	5	-	2,489
Total fixed assets		22,274	12,392
Current assets			
Other receivables	6	10,503	3,312
Cash and cash equivalents		155	18
Total current assets		10,658	3,330
Creditors: amounts falling due within one year			
Trade and other payables	7	(172)	(177)
Net current assets		10,486	3,153
Creditors: amounts falling due after one year			
Fair value put option	8	-	(2,419)
Net assets		32,760	13,126
Capital and reserves			
Called up share capital	10	1	1
Share premium		33,477	13,778
Retained earnings		(718)	(653)
Total equity		32,760	13,126

The financial statements were approved by the Board of Directors on 10th October 2022 and signed on its behalf by:

Gerry Ford
Director



Ben Price
Director



Statement of Changes in Shareholders' Equity

For the year ended 31 May 2022

	<i>Share capital</i> £000	<i>Share premium account</i> £000	<i>Retained earnings</i> £000	<i>Total</i> £000
At 1 June 2020	1	13,778	(4,148)	9,631
Total comprehensive income for the year	-	-	3,495	3,495
At 31 May 2021	1	13,778	(653)	13,126
Issued during the period	-	19,699	-	19,699
Total comprehensive income for the year	-	-	(65)	(65)
At 31 May 2022	1	33,477	(718)	32,760

Notes to the financial statements

At 31 May 2022

1. Accounting policies

Authorisation of financial statements and statement of compliance

The financial statements were authorised for issue by the Board of the Directors on 10 October 2022. Storm Equity Co Ltd is a private limited company incorporated and domiciled in England and Wales.

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

These financial statements have been prepared for the individual company only. The Company has taken advantage of the exemption available under section 400 of the Companies Act 2006 not to prepare group financial statements as the results of the Company and its subsidiaries are included in the consolidated financial statements of an intermediate parent undertaking and are publicly available (as set out in note 11).

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as they fall due for the foreseeable future. In forming this expectation, the directors have received confirmation of parental support and that the Company's fellow group undertakings will not seek repayment of their intra-group loans presented as current liabilities until such time as the Company is able to repay these liabilities. The Company is controlled by the Nero Group Limited, and in making their assessment the directors have therefore considered the going concern position of the Nero Group Limited, which is explained below.

The directors have looked out to November 2023 to make their going concern assessment, being the period over which there is the most visibility. The directors have prepared detailed forecasts and cash flow projection models which have been stress tested to allow them to assess the going concern assumption. These forecasts indicate that the Group can continue as a going concern under a base case scenario and after stress tests are applied. These stress tests factored in current economic conditions including inflationary adjustments. As at the date of signing these accounts, sales had reached approximately 110% of pre-Covid 19 levels, which is on target with our forecasts.

Material uncertainties were identified in the FY21 annual report. In the 12 months that have since elapsed, each of these material uncertainties has been either closed or considered as normal business risk and not material:

1. Regarding trading and Covid-19, sales have now reached 110% of pre-Covid levels (compared to 80-85% a year ago). This is in line with the Group's latest forecasts. Although Covid-19 and associated restrictions could return the Group considers that the risk of this is significantly reduced compared to a year ago.
2. The CVA challenge was dismissed just prior to signing the accounts last year although some uncertainty remained as to whether the judgement could be appealed. Since then, the challenger declined to appeal and indeed made a settlement as to the Group's costs. The case is now closed.
3. The Group successfully refinanced all of its facilities in January 2022. Additional headroom and flexibilities were negotiated which puts the Group in a firmer financial position than was the case under the previous debt structure.

Having made due and careful enquiry, the directors have satisfied themselves that the Group and Parent Company should continue to adopt the going concern basis in preparing its financial statements.

Notes to the financial statements

At 31 May 2022

1. Accounting policies (continued)

Basis of preparation

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

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

New standards and interpretations not yet adopted

At the date of the authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and had not yet been adopted by the Board:

- Property, plant and equipment: Proceeds before intended use - Amendments to IAS 16 (effective date 1 January 2022)
- Classification of Liabilities as Current or Non-Current – Amendments to IAS 1 (effective date 1 January 2023)
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (effective date 1 January 2023)
- Disclosure of Accounting Estimates - Amendments to IAS 8 (effective date 1 January 2023)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction- Amendments to IAS 12 (effective date 1 January 2023)

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Company in future years.

New standards effective for the current financial year

There has been no material impact on the Financial Statements as result of:

- IBOR Phase 2 (effective date 1 January 2021)

No 2021 amounts have been restated as a result of these standards becoming effective nor have the current year figures changed as a result of their application.

Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the balances reported as assets and liabilities in the balance sheet and amounts reported as revenue and expense during the year. The nature of estimation means that actual outcomes could differ from those estimates.

Notes to the financial statements

At 31 May 2022

1. Accounting policies (continued)

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of estimation uncertainty that had a significant risk of causing material adjustment to the financial statements within the prior financial year were the carrying value of investments and the fair value of derivatives. These investments are reviewed for impairment annually to identify if events or changes in circumstances indicate the carrying value may not be recoverable. The fair value of derivatives are calculated at each balance sheet date to reflect changes in market conditions.

The Company has reviewed the performance of its investments since the pandemic and has identified that in the case of its investment in Storm Holdco Ltd and its indirect subsidiaries, there is no indicator of an impairment despite it being loss making as this was a direct impact of isolated instances including Covid. Further, we have carried out a detailed review of the carrying value of assets within the Company and have identified that these do not exceed the recoverable amounts and therefore no indicator of impairment exists. The performance of these investments will continue to be monitored.

Further details on investments are included in note 4. Further details on the fair value of derivatives are included in note 5 and note 8.

Judgements

The following are the critical 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 financial statements:

Legal claims and contingency liabilities

Management judgement along with legal counsel advice is required to determine the risk of any claims brought against the Company crystallising into a future liability. When it is more likely than not that a claim will be lost by the Company and a material liability will crystallise, a provision is recorded in the financial statements. Where there is a risk of losing a material case but it is more likely than not to crystallise the Company discloses a contingent liability in its financial statements.

Financial assets

Financial assets are recognised when the Company becomes party to the contracts that give rise to them and are classified as financial assets at fair value. The Company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end. Financial

The classification of financial assets on initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

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

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

Notes to the financial statements

At 31 May 2022

1. Accounting policies (continued)

collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Subsequent measurement

Financial assets at amortised cost - Loans and receivables

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

The Company's financial assets at amortised cost includes group receivables.

Financial assets at fair value through profit or loss

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

Impairment and collectability of financial assets

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

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

Derecognition of financial assets

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

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the cases of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, and derivative financial instruments.

Notes to the financial statements

At 31 May 2022

1. Accounting policies (continued)

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (trade payables)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost - payables

Payables are non-interest bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently remeasured at fair value.

Derivatives are classified as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- In respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

Notes to the financial statements

At 31 May 2022

1. Accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date. Deferred tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Investments

Non-current asset investments are stated at cost. The carrying value of investments is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. The Company recognises its investments in subsidiaries at cost less provision for any impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. Cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Capital instruments

Ordinary shares, share premium and capital contribution are classified as equity instruments. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in equity.

2. Audit fees, directors' remuneration and staff costs

Auditor's remuneration for 2021 and 2022 has been met by another group company.

No remuneration was paid or is payable to the directors in their capacity as directors of the Company (2021 – £nil). The directors of this Company are also directors of a fellow group undertaking, Nero Holdings Limited, who paid the directors remunerations and pension contributions of £0.8m (2021 – £0.5m) in respect of services to the enlarged UK Group of which the Company is a member. It is not possible to identify the proportion of these remunerations that relate to services to this Company.

The Company had no staff during the period.

Notes to the financial statements

At 31 May 2022

3. Income tax

(a) Tax on profit from ordinary activities

The Company has incurred a current tax charge of £115k (2021 – £22k) during the year. Included within this is 63k (2021: Nil) of adjustments in respect of prior periods.

(b) Factors affecting tax on profit on ordinary activities for the period

The tax assessed for the period differs from the standard average rate of corporation tax in the UK of 19.00% (2021 – 19.00%). The differences are explained below:

	2022 £000	2021 £000
Profit on ordinary activities before tax	50	3,517
Profit on ordinary activities multiplied by standard average rate of corporation tax in the UK of 19.00% (2021 – 19.00%)	10	668
<i>Effects of:</i>		
Expenses not deductible	13	7
Income not taxable for tax purposes	-	(653)
Transfer pricing adjustments	37	-
Group relief surrendered / (claimed)	(8)	-
Adjustments to tax charge in respect of previous periods	63	-
Income tax reported in the statement of comprehensive income	115	22

On 23 September 2022 the Chancellor of the Exchequer announced that the corporation tax rate will remain at 19% from 1 April 2023, reversing a previously enacted measure to increase the rate to 25%. This reversal in the tax rate from 1 April 2023 has not been enacted or substantively enacted and accordingly has no impact on the tax balances at 31 May 2022.

No unrecognised deferred tax assets exist.

4. Investments

	2022 £000	2021 £000
Investment in subsidiary undertaking		
At 1 st June	9,903	9,903
Additions	12,371	-
At 31 st May	22,274	9,903

On 24 February 2022, the company acquired the remaining 33% of issued share capital of Storm Holdco Ltd. This brings the company's holding in Storm Holdco Ltd to 100%.

In the opinion of the directors, the fair value of the investment in subsidiary undertakings is not less than the carrying value.

Notes to the financial statements

At 31 May 2022

4. Investments (continued)

Details of Group undertakings

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

<i>Name of Company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of Business</i>
Storm Holdco Ltd ⁽¹⁾	Ordinary shares	100%	Holding
<i>Indirectly held</i>			
Storm Finance Co Ltd ⁽¹⁾	Ordinary shares	100%	Holding
Coffee #1 Ltd ⁽¹⁾	Ordinary shares	100%	Coffee retail

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

5. Other non-current assets

	<i>2022</i>	<i>2021</i>
	<i>£000</i>	<i>£000</i>
Fair value of call option	-	2,489

As part of the terms of its investment in Storm Holdco Ltd, the Company was granted a call option by S.A Brains, to purchase their remaining shares. The option has been granted at both the earliest time of exercise of 42 months and 54 months from the date of acquisition, 6 February 2019, based on certain multiples of EBITDA. The asset has been fair valued using the Black Scholes pricing model.

During the current year, Storm Equity purchased the remaining shares in Storm Holdco Ltd from S.A.Brains.

Fair value hierarchy

In accordance with IFRS 7 Financial Instruments: Disclosures, financial instruments which are carried at fair value in the balance sheet are analysed as level 1, 2, or 3. The Company classified its options as level 3 financial instruments as inputs which have a significant effect on the recorded fair value are unobservable.

Notes to the financial statements

At 31 May 2022

6. Trade and other receivables

	2022	2021
	£000	£000
Amounts due from related parties	30	30
Amounts due from group undertakings	10,473	3,282
	<u>10,503</u>	<u>3,312</u>

7. Trade and other payables

	2022	2021
	£000	£000
Trade payables	42	42
Accruals and other creditors	6	8
Corporation tax	94	97
Amounts due to parent undertaking	30	30
	<u>172</u>	<u>177</u>

8. Other non current liabilities

	2022	2021
	£000	£000
Fair value of put option	-	2,419

As part of the terms of its investment in Storm Holdco Ltd, the Company granted a put option to the minority shareholder S.A. Brains, to sell their remaining shares.

The option has been granted at both the earliest time of exercise of 42 months and 54 months from the date of acquisition, 6 February 2019, based on certain multiples of EBITDA. The liability has been fair valued using the Black Scholes pricing model.

During the current year, Storm Equity purchased the remaining shares in Storm Holdco Ltd from S.A.Brains.

9. Contingent liability

The Company is part of a group which had provided an unlimited cross guarantee in favour of the bankers of an intermediate parent, The Nero Group Ltd, in the prior year covering the term loans of The Nero Group Ltd and certain subsidiaries. In the current year the cross guarantee covers the term loans of Caffè Nero Group Holdings Ltd held in Rome Bidco Ltd. Both companies are also subsidiaries of The Nero Group Ltd. The carrying value of these loans at 31 May 2022 was £363m (2021 – £389.5m).

Notes to the financial statements

At 31 May 2022

10. Authorised and issued share capital

	No.	2022 £	No.	2021 £
Allotted, called up and fully paid				
Ordinary shares of £1 each	1,497	<u>1,497</u>	1,000	<u>1,000</u>

On 23 February 2022, 497 ordinary shares of £1 were issued and fully paid in cash. A share premium of £39,634 per share was recognised on issuance.

11. Ultimate parent undertaking and controlling party

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

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

(1) Copies of the financial statements for Rome Bidco Limited can be obtained from 9-15 Neal Street, London, WC2H 9QL.

(2) Copies of the group financial statements for The Nero Group Ltd and Caffe Nero Group Holdings Ltd can be obtained from 9-15 Neal Street, London, WC2H 9QL.

(3) G W Ford is the largest shareholder of the Company.