23.5 Degrees Topco Limited

Registered number: 09180152

Directors' report and financial statements

For the year ended 31 August 2018

COMPANY INFORMATION

Directors	Mr M Hepburn Mr P Wittet Mr J B Cleland Mr L Contardo (appointed 25 July 2018) Mr B Mulholland (appointed 25 July 2018)
Company secretary	Gateley Secretaries Limited
Registered number	09180152
Registered office	Unit 3, Hedge End Retail Park Charles Watts Way Hedge End Southampton Hampshire SO30 4RT
Independent auditors	Mazars LLP Chartered Accountants & Statutory Auditor 5th Floor Merck House Seldown Lane Poole BH15 1TW

23.5 DEGREES TOPCO LIMITED

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GROUP STRATEGIC REPORT
FOR THE YEAR ENDED 31 AUGUST 2018

Review of the business

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

The 23.5 Degrees Group consists of 23.5 Degrees Topco Limited, 23.5 Degrees Holdings Limited and 23.5 Degrees Limited.

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

The directors are delighted by the group's performance in the financial year, performing strongly in the existing business and opening 13 stores, taking the total to 55 trading outlets. During the year the directors also took the strategic decision to close two underperforming stores (Hertford in January 2018 and Poole High Street which closed in September 2018) to further improve the underline EBITDA performance of the group.

The group revenue grew to £24.4m, representing an increase of 19.5% on prior year and the group's EBITDA grew to £1.71m, excluding the costs associated with opening new stores.

The group also had an extremely successful year in securing new sites for future development and increased the Starbucks approved development pipeline, underpinning the group's growth strategy for the year 2019 & 2020.

23.5 Degrees Group 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 store to the highest possible brand standards.

During 2018 23.5 Degrees Group has been awarded by Starbucks further territory in the North of England and managed to open the first store in the new territory within 8 months of getting access to it. By the end of August 2018, 23.5 Degrees Group operated 5 stores in the new territory.

This fast roll out was achieved through strong partnership with property developers, landlords and the use of the first modular building which shorten the time from site finding to opening the store.

The operations management team delivered a successful and flawless roll out in the new territory bringing the Starbucks coffee experience for the first time in certain local communities in the UK.

In July 2018 the Group has also refinanced its banking facilities and aquired a further equity injection to support the roll out of a further 100 stores in the UK within the next 5 years.

The group's performance to the year-end 31 August 2018 was very encouraging, representing a strong foundation to achieve the strategic 5 years business plan.

Financial risk management objectives and policies

The Group's principal financial instruments comprise bank balances, trade creditors and bank loans. The main purpose of these instruments is to raise funds for the Group's day to day operations and store build costs to accelerate the growth.

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

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

- 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 Group can be summarised as follows:

(A) Current economic outlook / Brexit negotiations
Changes in the country's economic conditions may impact consumer spending.
Starbucks is working on several post Brexit scenarios to be ready, regardless of what the final deal between UK and Europe is going to be.

(B) Interest rate fluctuations
Changes to LIBOR and Bank of England rates might impact the Group cashflow to repay interests on the senior bank loan and the equipment finance facility. To mitigate the interest rate fluctuation the directors have agreed to enter an interest cap hedging product at an appropriate strike rate.

(C) Increased competition
Increased numbers of franchisees operating in the same geographical areas may impact the Group's success at securing new sites at competitive rates. The directors are confident of counteracting these risks by continuing to strengthen its covenant for landlord security. With securing a new financing package and raising further equity to support the roll out of new stores the Group has been able to counter these risks successfully.

GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2018

Future developments

The business growth strategy has 3 core areas of focus, referred to as the 3 cups, underpinned by the central function of HR, Legal and Finance:

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 or area 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. In the year just closed we had a target to open 15 stores and we delivered 13 of those. In next fiscal year the target is to open 20 stores.

'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 and signed on its behalf.

Luca Contardo

Mr L Contardo
Director

Date: 30/01/19

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 AUGUST 2018

The directors present their report and the financial statements for the year ended 31 August 2018.

Results and dividends

The loss for the year, after taxation, amounted to £2,575,855 (2017 - loss £879,384).

The directors do not recommend the payment of a dividend.

Directors

The directors who served during the whole of the year, unless otherwise stated, were:

Mr M Hepburn
Mr P Wittet
Mr J B Cleland
Mr L Contardo (appointed 25 July 2018)
Mr B Mulholland (appointed 25 July 2018)

Directors' responsibilities statement

The directors are responsible for preparing the Group Strategic Report, the Directors' Report and the consolidated 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 the Group and of the profit or loss of the Group for that period.

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

- select suitable accounting policies for the Group's financial statements 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 Group 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 the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

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.

Matters covered in the strategic report

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

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditors are aware of that information.

Post balance sheet events

In August the board agreed the closure of the Poole High Street store and assignment to the lease for the remaining of its duration to another retailer. This store was part of the 16 bundle stores bought from Starbucks in 2015. Considering 23.5 Degrees Limited has another store in Poole Dolphin Centre the directors are confident we will capture most of the trade in the other store.

Poole High Street store closed on Sunday the 9th of September 2018.

Since 31 August 2018, 8 new stores have been opened by 23.5 Degrees Limited, being Colchester Drive Thru (opened on 18 of September 2018), Hartlepool Teesbay Drive Thru (opened on 19 October 2018), Leeds Chapel Allerton (opened on 26 October 2018), Fleet Drive Thru (opened on 8 November 2018), Bradford Clayton Road Drive Thru (opened on 19 November 2018), Drakehouse Retail Park (opened on 14 December 2018), Leeds Kirkstall Road Drive Thru (opened 18 December 2018) and York Foss Island (opened 20 December 2018).

Auditors

The auditors, Mazars LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

Luca Contardo

Mr L Contardo
Director

Date: 30/01/19

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF 23.5 DEGREES TOPCO LIMITED

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 2018, which comprise the Group Statement of Comprehensive Income, the Group and Company Statements of Financial Position, the Group Statement of Cash Flows, the Group and Company Statement of Changes in Equity 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 Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

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 2018 and of the Group's loss 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 Auditors' 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 United Kingdom, including the Financial Reporting Council'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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF 23.5 DEGREES TOPCO LIMITED (CONTINUED)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditors' Report thereon. 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.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Group 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 Group 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

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group Strategic Report or 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 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF 23.5 DEGREES TOPCO LIMITED (CONTINUED)

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement 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 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.

Auditors' 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 Auditors' 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.

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

SMills

Stephen Mills (Senior Statutory Auditor)

for and on behalf of
Mazars LLP

Chartered Accountants
Statutory Auditor

5th Floor
Merck House
Seldown Lane
Poole
BH15 1TW

Date: 11|2|19

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2018

	Note	2018 £	2017 £
Turnover	4	24,400,866	20,418,206
Cost of sales		(15,343,251)	(12,502,129)
Gross profit		9,057,615	7,916,077
Administrative expenses		(10,975,479)	(8,632,117)
Fair value movements		(57,847)	-
Operating loss	5	(1,975,711)	(716,040)
Amounts written off investments		202,335	-
Interest payable and expenses	9	(418,404)	(229,314)
Loss before taxation		(2,191,780)	(945,354)
Tax on loss	10	(384,075)	65,970
Loss for the financial year		(2,575,855)	(879,384)

There were no recognised gains and losses for 2018 or 2017 other than those included in the consolidated statement of comprehensive income.

There was no other comprehensive income for 2018 (2017: £Nil).

The notes on pages 19 to 36 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2018

	Note		2018 £		As restated 2017 £
Fixed assets					
Intangible assets	11		3,052,917		2,757,285
Tangible assets	12		10,553,617		7,331,778
			13,606,534		10,089,063
Current assets					
Stocks	14	171,506		168,587	
Debtors: amounts falling due after more than one year	15	148,387		-	
Debtors: amounts falling due within one year	15	1,752,163		1,910,806	
Cash at bank and in hand		3,744,694		1,322,448	
		5,816,750		3,401,841	
Creditors: amounts falling due within one year	16	(7,189,143)		(4,575,050)	
Net current liabilities			(1,372,393)		(1,173,209)
Total assets less current liabilities			12,234,141		8,915,854
Creditors: amounts falling due after more than one year	17		(12,169,428)		(6,275,836)
Provisions for liabilities					
Net assets			64,713		2,640,018
Capital and reserves					
Called up share capital	21		1,944		1,394
Share premium account	22		7,686,497		7,686,497
Profit and loss account	22		(7,623,728)		(5,047,873)
			64,713		2,640,018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 AUGUST 2018

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

Luca Contardo

Mr L Contardo
Director

Date: 30/01/19

The notes on pages 19 to 36 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2018

	Note		2018 £		As restated 2017 £
Fixed assets					
Investments	13		2,500,100		2,500,100
			2,500,100		2,500,100
Current assets					
Debtors: amounts falling due within one year	15	3,930,453		4,499,202	
		3,930,453		4,499,202	
Creditors: amounts falling due within one year	16	(1,752)		-	
Net current assets			3,928,701		4,499,202
Total assets less current liabilities			6,428,801		6,999,302
Creditors: amounts falling due after more than one year	17		(80,000)		(495,836)
Net assets			6,348,801		6,503,466
Capital and reserves					
Called up share capital	21		1,944		1,394
Share premium account	22		7,686,497		7,686,497
Profit and loss account	22		(1,339,640)		(1,184,425)
			6,348,801		6,503,466

The profit for the financial year of the parent company was £Nil (2017: £Nil).

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

Luca Contardo

Mr L Contardo
Director

Date: 30/01/19

The notes on pages 19 to 36 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2018

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 September 2017 (as previously stated)	1,394	7,686,497	(3,051,417)	4,636,474
Prior year adjustment	-	-	(1,996,456)	(1,996,456)
At 1 September 2017 (as restated)	1,394	7,686,497	(5,047,873)	2,640,018
Comprehensive income for the year				
Loss for the year	-	-	(2,575,855)	(2,575,855)
Total comprehensive income for the year	-	-	(2,575,855)	(2,575,855)
Shares issued during the year	550	-	-	550
Total transactions with owners	550	-	-	550
At 31 August 2018	1,944	7,686,497	(7,623,728)	64,713

The notes on pages 19 to 36 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2017

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 September 2016 (as previously stated)	1,362	7,656,497	(2,023,261)	5,634,598
Prior year adjustment	-	-	(2,145,228)	(2,145,228)
At 1 September 2016 (as restated)	1,362	7,656,497	(4,168,489)	3,489,370
Comprehensive income for the year				
Loss for the year	-	-	(879,384)	(879,384)
Total comprehensive income for the year	-	-	(879,384)	(879,384)
Shares issued during the year	32	30,000	-	30,032
Total transactions with owners	32	30,000	-	30,032
At 31 August 2017	1,394	7,686,497	(5,047,873)	2,640,018

The notes on pages 19 to 36 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2018

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 September 2017 (as previously stated)	1,394	7,686,497	(1,165,298)	6,522,593
Prior year adjustment	-	-	(19,127)	(19,127)
At 1 September 2017 (as restated)	1,394	7,686,497	(1,184,425)	6,503,466
Comprehensive income for the year				
Loss for the year	-	-	(155,215)	(155,215)
Shares issued during the year	550	-	-	550
Total transactions with owners	550	-	-	550
At 31 August 2018	1,944	7,686,497	(1,339,640)	6,348,801

The notes on pages 19 to 36 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2017

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 September 2016 (as previously stated)	1,362	7,656,497	(1,165,298)	6,492,561
Prior year adjustment	-	-	(19,127)	(19,127)
At 1 September 2016 (as restated)	1,362	7,656,497	(1,184,425)	6,473,434
Shares issued during the year	32	30,000	-	30,032
Total transactions with owners	32	30,000	-	30,032
At 31 August 2017	1,394	7,686,497	(1,184,425)	6,503,466

The notes on pages 19 to 36 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2018

	2018 £	2017 £
Cash flows from operating activities		
Loss for the financial year	(2,575,855)	(879,384)
Adjustments for:		
Amortisation of intangible assets	354,038	337,564
Depreciation of tangible assets	1,734,065	1,380,646
Impairments of fixed assets	(202,335)	-
Loss on disposal of tangible assets	37,886	-
Interest paid	460,059	229,314
Taxation charge	384,075	(65,970)
(Increase) in stocks	(2,919)	(81,713)
(Increase)/decrease in debtors	(373,819)	4,118
Increase in creditors	2,076,034	323,551
Profit on disposal of intangible assets	(72,335)	-
Net fair value losses recognised in P&L	57,847	-
Net cash generated from operating activities	1,876,741	1,248,126
Cash flows from investing activities		
Purchase of intangible fixed assets	(375,000)	(100,000)
Purchase of tangible fixed assets	(4,993,790)	(2,568,291)
Net cash from investing activities	(5,368,790)	(2,668,291)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2018

	2018 £	2017 £
Cash flows from financing activities		
Issue of ordinary shares	550	30,032
Issue of loan notes	4,141,976	1,898,426
New finance leases	1,666,009	-
Interest paid	(418,404)	(229,314)
New bank loans	524,164	-
Net cash used in financing activities	5,914,295	1,699,144
Net increase in cash and cash equivalents	2,422,246	278,979
Cash and cash equivalents at beginning of year	1,322,448	1,043,469
Cash and cash equivalents at the end of year	3,744,694	1,322,448
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	3,744,694	1,322,448
	3,744,694	1,322,448

The notes on pages 19 to 36 form part of these financial statements.

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. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies (see note 3).

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements.

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2. Accounting policies (continued)

2.4 Operating leases: the Group as lessee

Rentals paid under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term.

2.5 Sale and leaseback

Where a sale and leaseback transaction results in a finance lease, no gain is immediately recognised for any excess of sales proceeds over the carrying amount of the asset. Instead, the proceeds are presented as a liability and subsequently measured at amortised cost using the effective interest method.

2.6 Finance costs

Finance costs are charged to the Consolidated Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount.

2.7 Borrowing costs

All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the year in which they are incurred.

2.8 Pensions

Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Consolidated Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Group in independently administered funds.

2. Accounting policies (continued)

2.9 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2. Accounting policies (continued)

2.10 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business acquisition and the acquirer's interest in the fair value of the Group's share of the identifiable assets and liabilities of the acquired business at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Consolidated Statement of Comprehensive Income over its useful economic life.

Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

2.11 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

2. Accounting policies (continued)

2.11 *Tangible fixed assets (continued)*

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

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

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Income.

2.12 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

2.13 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.14 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first outbasis.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the statement of comprehensive income.

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.15 Debtors

Short term debtors are measured at transaction price, less any impairment.

2. Accounting policies (continued)

2.16 Cash

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

2.17 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.18 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the Statement of Financial Position date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the Statement of Financial Position date.

2.19 Provisions for liabilities

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Consolidated Statement of Comprehensive Income in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

2.20 Financial instruments

The Group only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

3. *Judgments in applying accounting policies and key sources of estimation uncertainty*

Impairment of intangible assets

Intangible assets includes goodwill which is subject to amortisation. In assessing the recoverability of goodwill, the company makes judgements regarding whether impairment indicators exist based on legal factors, market conditions and operating performances of stores held. Future events could cause the company to conclude that impairment indicators exist and that the carrying values of these assets are impaired.

4. Turnover

An analysis of turnover by class of business is as follows:

	2018 £	2017 £
Sale of goods	24,400,866	20,418,206

All turnover arose within the United Kingdom and is derived from the principal activity of operating franchised Starbucks outlets..

5. Operating loss

The operating loss is stated after charging:

	2018 £	As restated 2017 £
Amortisation of intangible assets	583,092	566,618
Depreciation of tangible assets	1,734,065	1,380,646
Operating lease rentals	2,632,595	2,272,999

6. *Auditors' remuneration*

	2018 £	2017 £
Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements	15,200	20,000
Fees payable to the Group's auditor and its associates in respect of:		
All other assurance services	5,700	-
Taxation compliance services	4,100	-
	9,800	-

7. Employees

Staff costs, including directors' remuneration, were as follows:

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Wages and salaries	6,843,526	5,679,825	-	-
Social security costs	354,996	286,121	-	-
Other pension costs	27,987	9,059	-	-
	7,226,509	5,975,005	-	-

The average monthly number of employees, including the directors, during the year was as follows:

	2018 No.	2017 No.
Production staff	573	494
Adminstrative staff	15	13
	588	507

8. Directors' remuneration

	2018 £	2017 £
Directors' emoluments	347,499	285,737

The highest paid director received remuneration of £165,000 (2017 - £182,070).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £599 (2017 - £Nil).

9. Interest payable and similar expenses

	2018 £	2017 £
Bank interest payable	10,768	1,325
Other interest payable	407,636	227,989
	418,404	229,314

10. Taxation

	2018 £	2017 £
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	384,075	(65,970)
Total deferred tax	384,075	(65,970)
Taxation on profit/(loss) on ordinary activities	384,075	(65,970)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2017 - higher than) the standard rate of corporation tax in the UK of 19% (2017 - 19.6%). The differences are explained below:

	2018 £	2017 £
Loss on ordinary activities before tax	(2,191,780)	(945,354)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.6%)	(416,438)	(185,289)
Effects of:		
Expenses not deductible for tax purposes	8,510	-
Capital allowances for year in excess of depreciation	209,489	133,163
Short term timing difference leading to an increase (decrease) in taxation	3,537	-
Unrelieved tax losses carried forward	194,902	52,126
Deferred tax	384,075	(65,970)
Total tax charge for the year	384,075	(65,970)

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

11. Intangible assets

Group

	Franchise fees £	Goodwill £	Negative goodwill £	Total £
Cost				
At 1 September 2017 (as previously stated)	556,042	3,401,374	(555,259)	3,402,157
Prior Year Adjustment	43,958	-	-	43,958
At 1 September 2017 (as restated)	600,000	3,401,374	(555,259)	3,446,115
Additions	375,000	-	-	375,000
Disposals	-	-	102,424	102,424
At 31 August 2018	975,000	3,401,374	(452,835)	3,923,539
Amortisation				
At 1 September 2017 (as previously stated)	92,274	660,406	(107,808)	644,872
Prior Year Adjustment	43,958	-	-	43,958
At 1 September 2017 (as restated)	136,232	660,406	(107,808)	688,830
Charge for the year	70,546	338,799	(55,307)	354,038
On disposals	-	-	30,089	30,089
Impairment charge	-	-	(202,335)	(202,335)
At 31 August 2018	206,778	999,205	(335,361)	870,622
Net book value				
At 31 August 2018	768,222	2,402,169	(117,474)	3,052,917
At 31 August 2017 (as restated)	463,768	2,740,968	(447,451)	2,757,285

12. Tangible fixed assets

Group

	Long-term leasehold property £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Assets in the course of construction £	Total £
Cost or valuation						
At 1 September 2017	5,053,095	953,624	4,037,755	381,389	-	10,425,863
Additions	2,010,596	947,222	1,053,863	339,843	642,266	4,993,790
Disposals	(2,141)	(5,533)	(62,131)	-	-	(69,805)
At 31 August 2018	7,061,550	1,895,313	5,029,487	721,232	642,266	15,349,848
Depreciation						
At 1 September 2017	872,458	238,964	1,771,962	210,701	-	3,094,085
Charge for the year on owned assets	514,606	269,272	834,386	115,801	-	1,734,065
Disposals	(473)	(1,978)	(29,468)	-	-	(31,919)
At 31 August 2018	1,386,591	506,258	2,576,880	326,502	-	4,796,231
Net book value						
At 31 August 2018	5,674,959	1,389,055	2,452,607	394,730	642,266	10,553,617
At 31 August 2017	4,180,637	714,660	2,265,793	170,688	-	7,331,778

13. Fixed asset investments

Company

	Investments in subsidiary companies £
Cost or valuation	
At 1 September 2017	2,500,100
At 31 August 2018	2,500,100
Net book value	
At 31 August 2018	2,500,100
At 31 August 2017	2,500,100

14. Stocks

	Group 2018 £	Group 2017 £
Finished goods	171,506	168,587

Stock recognised in cost of sales during the year as an expense was £6,367,260 (2017 - £5,210,367).

15. Debtors

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Due after more than one year				
Prepayments and accrued income	148,387	-	-	-
	148,387	-	-	-

	Group 2018 £	Group As restated 2017 £	Company 2018 £	Company As restated 2017 £
Due within one year				
Trade debtors	22,249	-	-	-
Amounts owed by group undertakings	-	-	3,930,453	4,343,987
Other debtors	15,555	-	-	-
Called up share capital not paid	-	99	-	-
Prepayments and accrued income	1,368,923	1,181,196	-	-
Deferred taxation	345,436	729,511	-	155,215
	1,752,163	1,910,806	3,930,453	4,499,202

16. Creditors: Amounts falling due within one year

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Bank loans	284,211	-	-	-
Trade creditors	2,933,994	2,296,310	-	-
Other taxation and social security	339,795	432,896	-	-
Obligations under finance lease and hire purchase contracts	196,001	-	-	-
Accruals and deferred income	3,377,295	1,845,844	1,752	-
Financial instruments	57,847	-	-	-
	7,189,143	4,575,050	1,752	-

17. Creditors: Amounts falling due after more than one year

	Group 2018 £	Group As restated 2017 £	Company 2018 £	Company As restated 2017 £
Bank loans	6,515,789	6,275,836	-	495,836
Net obligations under finance leases and hire purchase contracts	1,470,008	-	-	-
Other creditors	4,183,631	-	80,000	-
	12,169,428	6,275,836	80,000	495,836

18. Finance leases

Minimum lease payments under finance leases fall due as follows:

	Group 2018 £	Group 2017 £
Within one year	196,001	-
Between 1-5 years	1,470,008	-
	1,666,009	-

19. Financial instruments

Financial assets measured at fair value through profit or loss comprise investments.

Financial liabilities measured at fair value through profit and loss comprise derivatives.

All other financial assets and liabilities are measured at amortised cost.

20. Deferred taxation

Group

	2018 £
At beginning of year	729,511
Charged to profit or loss	(384,075)
At end of year	345,436

Company

	2018 £
At beginning of year	155,215
Charged to profit or loss	(155,215)
At end of year	-

The deferred tax asset is made up as follows:

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Accelerated capital allowances	-	(17,332)	-	-
Tax losses carried forward	345,436	746,843	-	155,215
	345,436	729,511	-	155,215

21. Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
250,000,000 (2017 - 250,000,000) Ordinary A shares of £0.000001- each	250	250
37,783 (2017 - 37,783) Ordinary B shares of £0.01 each	378	378
25,196 (2017 - 25,196) Ordinary C shares of £0.01 each	252	252
513,744,000 (2017 - 513,744,000) Ordinary shares of £0.000001 each	514	514
10,000 (2017 - Nil) Ordinary E shares of £0.01 each	100	-
36,000 (2017 - Nil) Ordinary F shares of £0.01 each	360	-
9,000 (2017 - Nil) Ordinary G shares of £0.01 each	90	-
	1,944	1,394

There are also 22,400 (2017 - 22,400) preference shares of £0.000001 each issued with a nominal value of £Nil (2017 - £Nil).

On 25 July 2018, 10,000 E Ordinary shares, 36,000 F Ordinary share and 9,000 G Ordinary shares were issued with an aggregate nominal value of £100, £360 and £90 respectively.

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

22. 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

23. Comparatives

Company

The comparative figures have been restated due to a write-off of a debtor balance that was not supported. As a result of the restatement, the profit and loss account brought forward has decreased by £19,127 and other debtors have decreased by £19,127. There was no overall impact on the loss for the comparative financial year.

We have also restated the comparative figures due to the reclassification of balances owed by group companies. As a result of the restatement, bank loans and overdrafts have decreased by £30,000 and amounts owed from group companies have increased by £30,000 compared to the amounts previously stated. There was no overall impact on the loss for the comparative financial year.

Group

The comparative figures have been restated to reflect a reclassification of balances within franchise fees in the intangibles fixed assets note due to a difference between the consolidated accounts of 23.5 Degrees Topco Limited and its subsidiary, 23.5 Degrees Limited. As a result of the restatement, brought forward franchise fees have increased by £43,958 and brought forward amortisation charges have increased by £43,958 compared to the amounts previously stated. There was no overall impact on the loss for the comparative financial year.

We have also restated the comparative figures due to a change in the accounting policy regarding goodwill on consolidation previously recognised. Merger accounting has now been applied on the basis that the directors believe it more fairly represents the nature of the business combination. As a result of the restatement, the cost of the goodwill on consolidation has decreased by £2,290,542, amortisation brought forward has decreased by £229,055, the amortisation charge for the current year in both the balance sheet and the statement of comprehensive income have decreased by £229,054 and profit and loss account brought forward has decreased by £2,061,487.

The comparative figures have been restated due to a recalculation of the accrual in relation to lease incentives. As a result of the restatement, administrative expenses have increased by £80,282, the profit and loss account brought forward has decreased by £64,614 and accruals have increased by £144,896 compared to the amounts previously stated.

24. Capital commitments

At 31 August 2018 the Group had capital commitments as follows:

	Group 2018 £	Group 2017 £
Contracted for but not provided in these financial statements	(1,445,296)	(206,745)

The Company had no capital commitments as at the reporting date.

25. Commitments under operating leases

At 31 August 2018 the Group had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2018 £	Group 2017 £
Not later than 1 year	2,901,250	2,586,334
Later than 1 year and not later than 5 years	12,498,486	7,759,002
Later than 5 years	22,069,925	15,698,632
	37,469,661	26,043,968

The Company had no commitments under the non-cancellable operating leases as at the reporting date.

26. Post balance sheet events

In August the board agreed the closure of the Poole High Street store and assignment to the lease for the remaining of its duration to another retailer. This store was part of the 16 bundle stores bought from Starbucks in 2015. Considering 23.5 Degrees Limited has another store in Poole Dolphin Centre the directors are confident we will capture most of the trade in the other store.

Poole High Street store closed on Sunday the 9th of September 2018.

Since 31 August 2018, 8 new stores have been opened by 23.5 Degrees Limited, being Colchester Drive Thru (opened on 18 of September 2018), Hartlepool Teesbay Drive Thru (opened on 19 October 2018), Leeds Chapel Allerton (opened on 26 October 2018), Fleet Drive Thru (opened on 8 November 2018), Bradford Clayton Road Drive Thru (opened on 19 November 2018), Drakehouse Retail Park (opened on 14 December 2018), Leeds Kirkstall Road Drive Thru (opened 18 December 2018) and York Foss Island (opened 20 December 2018).