

GOURMET BURGER KITCHEN LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED
25 February 2018



Company Registration No. 3970045

Gourmet Burger Kitchen Limited

DIRECTORS, OFFICERS AND ADVISORS

DIRECTORS

DL Nadauld
GD Carolan
DP Hele
SL Botha

SECRETARY

GD Carolan

REGISTERED OFFICE

Suite C
1 Lindsey Street
London
EC1A 9HP

AUDITOR

Rees Pollock
Chartered Accountants
35 New Bridge Street
London
EC4V 6BW

Gourmet Burger Kitchen Limited

STRATEGIC REPORT

The Directors of Gourmet Burger Kitchen Ltd (“GBK” or “the company”) present their Strategic Report for the period ended 25 February 2018.

Introduction

The Directors of GBK acknowledge the challenging trading environment that the company is currently operating in. As a result the aim is to lead the business by continuing our obsession with fantastic food and maintaining high quality restaurants while adapting to meet the variable needs of our customers.

Business Review

The results for the 52 week period ended 25 February 2018 are set out in the income statement on page 9. The comparative period is the 52 weeks to 26 February 2017.

GBK continued the programme of organic openings during the period, opening 10 (period ended 26 February 2017: 13) new restaurants taking the total number operated by GBK to 94 restaurants as at 25 February 2018 (2017: 84).

Revenue increased 5% to £81.7m (period ended 26 February 2017: £77.9m). This was driven by new openings and continued development of channels such as “order and collect” and delivery which compensated for the decline in like for like in-store performance.

Gross profit was £32.7m (2017: £33.0m) and gross profit margin was 40.0% (2017: 42.4%).

Administrative expenses for the period increased 21% to £32.3m (2017: £26.8m) due to the increased number of restaurants in the estate.

Restaurant opening costs for the period fell by 68% to £0.6m (2017: £1.9m) largely due to efficiencies identified in our opening process and the lower number of openings in the period ended 25 February 2018.

As a result of the above, profit before exceptional items, interest and tax is £0.4m (2017: £6.2m).

The Directors regularly review all assets for indicators of impairment. As a result of the review and taking into account the uncertain trading conditions the Directors have taken the decision to impair certain assets where carrying values were in excess of recoverable amounts. As a result an impairment of £4.1m (2017: Nil) and a provision for related property expenses of £1.8m (2017: Nil) were recognised in the period as set out in Note 5.

In our drive to serve the best burger experience, the interaction between our team and our guests plays a vital part and we therefore take steps to ensure that service levels are high. We are committed to the training and development of all team members and we continue to monitor our performance both internally and through customer feedback and mystery diner visits. Team incentives are structured to take into account customer service and other aspects of performance as well as financial performance. We maintain our investment in our food to ensure the product we serve our customers continues to be of the highest quality in our segment.

Principal Risks and Uncertainties

The principal risks and uncertainties faced by GBK are:

Competition

GBK operates in a very competitive and fragmented market which is constantly bringing new concepts and products to the expanding customer base. However the Directors believe that GBK offers superior quality products that separates the business from its competitors. By continuously seeking to improve products and service GBK will aim to maintain and grow market share.

Gourmet Burger Kitchen Limited

STRATEGIC REPORT

Employees

The continuing development of GBK is based on its employees' contributions in an industry which has high levels of staff turnover. Staff retention and recruitment of suitable candidates for new restaurants and developing central support functions are recognised by management as being key drivers for success. Further, labour cost forms a key variable cost for GBK. Labour costs are heavily influenced by macro factors including legislative driven above inflation increases in National Minimum Wage and National Living Wage. These above inflation increases coupled with the introduction of the apprentice levy represents a challenge to management. Moreover, the continued uncertainty relating to the UK relationship with the European Union has also influenced staff recruitment and retention as a result. The Directors recognise the importance of engaging and incentivising the GBK team and continued strengthening in these areas is expected to mitigate risk.

Supply Chain

The company has key arrangements in place with several suppliers of its raw products which are constantly reviewed, monitored and enhanced. The commercial team continuously develop new products to maintain an exciting and varied menu.

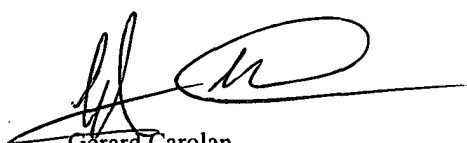
Working Capital

Amidst uncertain market conditions caused by volatility in consumer confidence in the economy as a result of the continued uncertainty relating to the Brexit negotiations, competition and potential over supply in the market place and the macro economic conditions, the company has maintained a reasonable performance after period end, taking into account adverse weather conditions experienced. By maintaining current underlying performance and utilising facilities available the company will be able to meet all its working capital requirements.

Going concern

The financial statements have been prepared on a going concern basis. After making appropriate inquiries and reviewing responses from the wider group of companies that Gourmet Burger Kitchen Limited is part of, and based on the fact that the company produces substantial operating cash flow, the Directors are of the view that the company has adequate resources to continue in operational existence for the foreseeable future at the time of approving the financial statements.

On behalf of the board



Gerard Carolan
Director & Company Secretary
01 June 2018

Gourmet Burger Kitchen Limited

DIRECTORS' REPORT

The directors submit their report and the financial statements of Gourmet Burger Kitchen Limited for the period ended 25 February 2018.

A description of the Company's principal activities and future developments, its principal risks and uncertainties and its key performance indicators can be found in the Strategic Report on pages 2 and 3. Financial risk management and policies are detailed in note 20.

Directors

The following directors have held office since 26 February 2017:

DL Nadauld (appointed 31 December 2017)
GD Carolan
AD Murdoch (resigned 31 December 2017)
KA Hedderwick (resigned 16 January 2018)
DP Hele
SL Botha (appointed 1 March 2018)

Dividends

No dividends were declared in the period (2017: £Nil).

Employees

Full and fair consideration is given to employment applications from disabled persons having regard to their particular aptitude and abilities. So far as is practicable, arrangements are made to continue the employment of an employee who becomes disabled.

The development of employee involvement in the company's business is kept under regular review and the directors are committed to encouraging greater involvement of all employees. Formal and informal briefing of employees takes place as appropriate.

The group takes all reasonable steps to ensure that all employment conditions are applied regardless of sex, race, colour, ethnic background, religion or disability.

Directors' liability insurance and indemnity

The Company has arranged insurance cover in respect of legal action against its Directors. To the extent permitted by UK law, the Company also indemnifies the Directors.

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with Section 418 of the Companies Act 2006.

Political contributions

During the period the Company made no political contributions (2017: £Nil).

Gourmet Burger Kitchen Limited

DIRECTORS' REPORT

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Rees Pollock will therefore continue in office.

By order of the board



GD Carolan
Director & Company Secretary
01 June 2018

Gourmet Burger Kitchen Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU 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 of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



Opinion

We have audited the financial statements of Gourmet Burger Kitchen Limited (the 'Company') for the period ended 25 February 2018, which comprise the income statement, the statement of financial position, the statement of cash flows, the 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 International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 25 February 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the accounting policies in the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board ('IASB').

In our opinion the financial statements give a true and fair view of the financial position of the Company as at 25 February 2018 and of its financial performance and its cash flows for the period then ended in accordance with IFRSs as issued by the IASB.

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 Company 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 Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOURMET BURGER KITCHEN LIMITED
(continued)

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

Responsibilities of directors

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

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

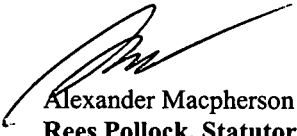
Auditors' responsibilities for the audit of the financial statements

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.



Alexander Macpherson (Senior statutory auditor) for and on behalf of
Rees Pollock, Statutory Auditor
London
4 June 2018

Gourmet Burger Kitchen Limited

INCOME STATEMENT

For the period ended 25 February 2018

	Note	Period ended 25 February 2018 £'000	Period ended 26 February 2017 £'000
Revenue	1	81,744	77,912
Cost of sales		(49,017)	(44,906)
Gross profit		<u>32,727</u>	<u>33,006</u>
Administrative expenses		(32,325)	(26,825)
Operating profit	2	<u>402</u>	<u>6,181</u>
Financial expenses	4	(837)	(1,721)
Exceptional charge	5	(5,931)	-
(Loss)/Profit on ordinary activities before taxation		<u>(6,366)</u>	<u>4,460</u>
Taxation	6	550	(310)
(Loss)/Profit for the period		<u><u>(5,816)</u></u>	<u><u>4,150</u></u>

The operating profit for the period arises from the Company's continuing operations. The loss for the period represents the Company's historical cost profit.

No separate Statement of Other Comprehensive Income has been presented as all such gains and losses have been dealt with in the income statement.

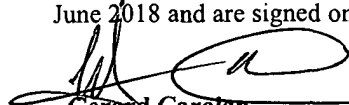
Gourmet Burger Kitchen Limited

STATEMENT OF FINANCIAL POSITION

At 25 February 2018

	Note	25 February 2018 £'000	26 February 2017 £'000
Non-current assets			
Intangible assets	7	212	214
Property, plant and equipment	8	52,381	55,858
Investments	9	1	1
Trade and other receivables	11	927	136
		53,521	56,209
Current assets			
Inventories	10	1,765	1,599
Trade and other receivables	11	2,679	3,580
Cash and cash equivalents		4,488	4,149
Tax receivable		48	-
		8,980	9,328
Total assets		62,501	65,537
Current liabilities			
Trade and other payables	12	(22,915)	(17,786)
Tax payable		-	(57)
Provisions	15	(685)	-
		(23,600)	(17,843)
Non-current liabilities			
Provisions	15	(1,081)	-
Deferred tax liabilities	13	(644)	(1,194)
Amounts due to inter-group parties	14	(30,000)	(33,508)
		(31,725)	(34,702)
Total liabilities		(55,325)	(52,545)
Net assets		7,176	12,992
Equity			
Share capital	16	1	1
Share premium		174	174
Capital contribution reserve		1,197	1,197
Retained Earnings		5,804	11,620
Total equity		7,176	12,992

The financial statements on pages 9 to 28 were approved by the board of directors and authorised for issue on 01 June 2018 and are signed on its behalf by


Gerard Carolan
 Director & Company Secretary
 Registered number 3970045

Gourmet Burger Kitchen Limited

STATEMENT OF CASH FLOWS

For the period ended 25 February 2018

	Note	Period ended 25 February 2018	Period ended 26 February 2017
		£'000	£'000
Cash flows from operating activities			
(Loss)/profit for the period		(5,816)	4,150
Adjustments for:			
Taxation	6	(550)	310
Financial expenses	4	837	1,721
Depreciation and amortisation	7,8	6,149	5,323
Impairment	5,8	4,102	-
Cash generated from operating activities before working capital changes		4,722	11,504
Increase in inventories		(166)	(265)
Increase in trade and other receivables		(155)	(1,008)
Increase in trade and other payables		2,745	1,863
Increase in provision		1,766	-
Cash generated from operations		8,912	12,094
Tax paid		(105)	(591)
Net cash flows from operating activities		8,807	11,503
Acquisition of property, plant and equipment and intangible assets		(6,772)	(15,665)
Net proceeds from sales of property, plant and equipment		-	-
Net cash flows from investing activities		(6,772)	(15,665)
Cash flows from financing activities			
(Decrease) / Increase in intercompany loan		(859)	7,842
Interest paid		(837)	(1,721)
Net cash flows from financing activities		(1,696)	6,121
Net increase in cash and cash equivalents		339	1,959
Opening cash and cash equivalents		4,149	2,190
Closing cash and cash equivalents		4,488	4,149

Gourmet Burger Kitchen Limited

STATEMENT OF CHANGES IN EQUITY

For the period ended 25 February 2018

	Share Capital	Share Premium	Retained Earnings	Capital Contribution Reserve	Total Equity
	£000	£000	£000	£000	£000
Balance at 28 February 2016	1	174	7,470	1,197	8,842
Total Comprehensive Income for the Period					
Profit for the period	-	-	4,150	-	4,150
Balance at 26 February 2017	1	174	11,620	1,197	12,992

	Share Capital	Share Premium	Retained Earnings	Capital Contribution Reserve	Total Equity
	£000	£000	£000	£000	£000
Balance at 26 February 2017	1	174	11,620	1,197	12,992
Total Comprehensive Income for the Period					
Loss for the period	-	-	(5,816)	-	(5,816)
Balance at 25 February 2018	1	174	5,804	1,197	7,176

Gourmet Burger Kitchen Limited

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Gourmet Burger Kitchen Limited ("the company") is a private limited company incorporated and domiciled in the UK. The registered office and principal activities of the company can be found on pages 1 and 2 respectively.

The company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

BASIS OF PREPARATION

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRS") and with IFRS as adopted by the EU ("Adopted IFRS").

ADOPTION OF NEW STANDARDS AND NEWLY ISSUED BUT NOT EFFECTIVE

Management has reviewed relevant standards and has deemed their impact immaterial with the exception of IFRS 16 "Leases". This will require the company to recognise a right of use asset and related lease liability based on the effective interest rate implicit in the company's leases over its operating premises.

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS16 replaces the previous leases Standard, IAS17 Leases, and Related Interpretations. IFRS16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

Management has initiated a transition plan to assess the impact of the standard. The standard is expected to have an impact on the Group's assets and liabilities in relation to the property leases for its own business operations (Refer to Note 17 Operating lease commitments). An estimate of the impact of the standard on the company's financial statements will be provided in the annual financial statements for the year ending 24 February 2019 as the transition plan is still underway.

GOING CONCERN

Notwithstanding the net current liability position of the company, the financial statements have been prepared on a going concern basis. After making appropriate inquiries and reviewing responses from the wider group of companies that Gourmet Burger Kitchen Limited is part of, and based on the fact that the company produces substantial operating cash flow, the Directors are of the view that the company has adequate resources to continue in operational existence for the foreseeable future at the time of approving the financial statements. The principal risks and uncertainties facing the Group are set out in the Strategic Report on pages 2 and 3.

REVENUE RECOGNITION

Revenue represents the fair value of consideration received or receivable, net of Value Added Tax, of goods sold and services provided to customers after deducting discounts. Revenue is recognised when significant risks and rewards of ownership are transferred. Sales of goods that result in award credits for customers under the company's loyalty scheme are accounting for as multiple element revenue transactions and the fair value of the consideration received or recoverable is allocated between the goods supplied and the award credits granted. The consideration allocated to the awards credits is measured by reference to their fair value (the amount for what the award credit could be sold separately). Such consideration is not recognised as revenue at the time of the initial sale transaction but is deferred and recognised as revenue when the awarded credits are redeemed and the Company's obligations have been fulfilled.

INTANGIBLE ASSETS

Intangible non-current assets which mainly comprise trademarks and licences are stated at historical cost less amortisation. Amortisation is provided in order to write off each asset over its estimated useful life at a rate of 5% to 10% straight line.

Gourmet Burger Kitchen Limited

ACCOUNTING POLICIES

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less depreciation. Depreciation is provided on all tangible non-current assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:-

Leasehold properties and improvements	over lease term or renewal term
Plant and equipment	20% to 33% straight line
Furniture, fixtures and fittings	10% straight line
Motor Vehicles	25% straight line

Depreciation is charged from the date when the asset is brought into use. Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

INVESTMENTS

Long term investments in subsidiary undertakings and other long term investments are classified as non-current assets and stated at historic cost in the Company's statement of financial position.

Provision is made for any impairment in the value of fixed asset investments.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete and slow-moving items.

FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income statement.

TAXATION

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the statement of financial position date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the statement of financial position date. Deferred tax is measured on a non-discounted basis.

PENSIONS

The amount charged to the income statement in respect of pension costs is the contributions payable to money purchase schemes in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Gourmet Burger Kitchen Limited

ACCOUNTING POLICIES

OPERATING LEASE PAYMENTS

Where assets are financed by leasing agreements that do not give rights approximating to ownership the leases are defined as “operating leases” and the annual rentals are charged to the income statement on a straight line basis over the lease term.

The benefit of lease incentives received upon entering into a lease is spread over the period to the end of the lease term. Similarly, lease incentives granted by the company, as lessor, are spread over the period to the end of the lease term.

PROVISIONS

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probably the Company will be required to settle that obligation. Provisions are measured at the Directors’ best estimate of the expenditure required to settle the obligation at the statement of financial position date and are discounted to present value where the effect is material.

INTEREST BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

1 REVENUE AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The Company's revenue and profit before taxation were all derived from its principal activity which is carried on entirely within the United Kingdom. The Directors consider that there is only one class of business.

2 OPERATING PROFIT

	Period ended 25 February 2018 £'000	Period ended 26 February 2017 £'000
Operating profit is stated after charging:		
Depreciation, amortisation and amounts written off:		
- Depreciation of owned property, plant and equipment	6,137	5,311
- Amortisation of intangible non-current assets	12	12
Auditors' remuneration		
- audit of these financial statements	34	28
- other services relating to taxation	-	-
- other services	-	-
Cost of inventories recognised as an expense	17,497	16,933
Operating lease rentals:		
- Land and buildings	9,390	7,388
- Other	-	-
Rental income	(194)	(150)
Restaurant opening costs	598	1,870
	<u> </u>	<u> </u>

3 EMPLOYEES

	Period ended 25 February 2018 No.	Period ended 26 February 2017 No.
The average monthly number of persons (including directors) employed by the Company, analysed by category, during the period were:		

Administration and management	10	16
Restaurant and distribution	1,840	1,848
	<u>1,850</u>	<u>1,864</u>

	Period ended 25 February 2018 £'000	Period ended 26 February 2017 £'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	25,400	22,387
Social security costs	1,561	1,432
Pension costs	126	107
	<u>27,087</u>	<u>23,926</u>

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

EMPLOYEES (continued)

DIRECTORS' REMUNERATION

No Directors received any emoluments or pension benefits from the Company.

4	FINANCIAL EXPENSES	Period ended 25 February 2018 £'000	Period ended 26 February 2017 £'000
	Loan interest	837	1,721
		<u>837</u>	<u>1,721</u>

5 EXCEPTIONAL COSTS

PROPERTY PLANT AND EQUIPMENT

An impairment of £4.1 million (2017: Nil) was recognised during the year under review related to plant and equipment at GBK restaurant level (refer Strategic report on page 2). For the purposes of the property reviewed, plant and equipment the value in use calculations were performed at a site (CGU) level. The recoverable amount of the impaired equipment (excluding unimpaired CGUs) was determined on the basis of value in use, which amounted to £1.1m.

The key assumptions used in calculating the recoverable amount include the discount rate and the long term growth rate. Long term forecasts are based on board approved budgets for the forthcoming year which are extrapolated over a longer period using growth rates based on the maturity of the site in question and management's historic experience of the way in which sites develop. The growth rates therefore vary between 3% and 6% up to year ten, after which a standard growth rate of 2.5% is applied. The discount rate used in measuring value in use was 5% per annum.

An increase (decrease) of 1% in the discount rate would result in an increase (decrease) in the impairment charge of £0.1m (£0.04m). An increase (decrease) in the long term growth rate of 1% in the forecast profits will result in a decrease in the impairment charge of £0.07m (increase £0.11m).

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

5 EXCEPTIONAL COSTS continued

PROVISION FOR PROPERTY RELATED EXPENSES

The impairment review above encompassed an assessment of whether any of the sites represented an onerous lease. A lease is onerous where the unavoidable costs of fulfilment exceed the economic benefits expected to be received. Provision has therefore been made for the lower of the costs of closure or the cost of continued operation which amounted to £1.8m (2017: Nil). The provision is based on the expected time until the lease can be assigned and the discount to standing rent which will have to be paid in order to attract an assignee.

Management has applied its judgement relating to property rental contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The judgement is based on management's outlook of the expected cash flows from the businesses to which the property rental contracts relate (refer Note 15 Provisions). Management have reviewed the property portfolio in the UK based on underperforming sites and applied assumptions on recoverable amounts based on sub-letting the property and made provision on this basis. As a result the company expects the majority of cash flows to fall within the next 18 to 24 months with residual amounts being payable over a subsequent period averaging five years. The critical assumptions are therefore the length of time it will take to market the lease and find an assignee, and the amount of discount which will have to be offered to secure the assignment. Management will continue to review the portfolio in the short and long-term.

An increase (decrease) of 10% in the time period till assignment will result in an increase (decrease) in the provision of £0.1m (£0.1m). A decrease (increase) of 10% in the sub-let discount would result in an (decrease) increase in the provision of (£0.3m) £0.3m.

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

6	TAXATION	Period ended 25 February 2018 £'000	Period ended 26 February 2017 £'000
	Current taxation expense		
	Current tax on income for the period	-	128
	Adjustments in respect of prior periods	-	60
	Group relief paid for	-	-
		<u>-</u>	<u>188</u>
	Deferred tax (see note 13)		
	Change in tax rate	-	(38)
	Origination/(reversal) of timing differences	(430)	481
	Adjustments in respect of prior periods	(120)	(321)
		<u>(550)</u>	<u>310</u>
	Total tax expense/(credit)		
		<u>(550)</u>	<u>310</u>
	Total tax reconciliation:	Period ended 25 February 2018 £'000	Period ended 26 February 2017 £'000
	Profit/(loss) on ordinary activities before tax	(6,366)	4,460
		<u>(6,366)</u>	<u>4,460</u>
	Current tax at 19.09% (2017: 20%)	(1,215)	892
	Effect of:		
	Ineligible depreciation	1,044	517
	Expenses not deductible for tax purposes	86	-
	Group relief not paid for	(347)	(778)
	Differential in tax rate for timing differences	2	(60)
	Adjustments in respect of prior periods	(120)	(261)
	Movement in unrecognised deferred tax	-	-
		<u>(550)</u>	<u>310</u>
	Total tax charged (see above)		
		<u>(550)</u>	<u>310</u>

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

7 INTANGIBLE ASSETS

	Trademarks and licences £'000
Cost	
At 28 February 2016	205
Additions	52
At 26 February 2017	257
Amortisation	
At 28 February 2016	31
Charged in the period	12
At 26 February 2017	43
Net book value	
At 26 February 2017	214
At 28 February 2016	174
	Trademarks and licences £'000
Cost	
At 26 February 2017	257
Additions	10
At 25 February 2018	267
Amortisation	
At 26 February 2017	43
Charged in the period	12
At 25 February 2018	55
Net book value	
At 25 February 2018	212
At 26 February 2017	214

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

8 PROPERTY, PLANT AND EQUIPMENT

	Short term leasehold properties £'000	Assets in the course of construction £'000	Plant and equipment £'000	Furniture, fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost						
At 28 February 2016	56,057	2,724	9,333	7,265	130	75,509
Additions	9,356	2,543	1,886	1,828	-	15,613
Reclassification	2,110	(2,603)	227	266	-	-
Disposals	(438)	-	(636)	(16)	-	(1,090)
At 26 February 2017	67,085	2,664	10,810	9,343	130	90,032
Accumulated depreciation						
At 28 February 2016	21,114	-	6,103	2,631	105	29,953
Charged in the period	3,108	-	1,382	798	23	5,311
Disposals	(438)	-	(634)	(18)	-	(1,090)
At 26 February 2017	23,784	-	6,851	3,411	128	34,174
Net book value						
At 26 February 2017	43,301	2,664	3,959	5,932	2	55,858
At 28 February 2016	34,943	2,724	3,230	4,634	25	45,556

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

	Short term leasehold properties £'000	Assets in the course of construction £'000	Plant and equipment £'000	Furniture, fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost						
At 26 February 2017	67,085	2,664	10,810	9,343	130	90,032
Additions	2,027	3,289	859	587	-	6,762
Reclassification	3,671	(5,175)	731	773	-	-
Disposals	-	-	-	-	-	-
At 25 February 2018	72,783	778	12,400	10,703	130	96,794
Accumulated depreciation and impairment losses						
At 26 February 2017	23,784	-	6,851	3,411	128	34,174
Depreciation charged in the period	3,520	-	1,634	981	2	6,137
Impairment loss	3,509	146	94	353	-	4,102
Disposals	-	-	-	-	-	-
At 25 February 2018	30,813	146	8,579	4,745	130	44,413
Net book value						
At 25 February 2018	41,970	632	3,821	5,958	-	52,381
At 26 February 2017	43,301	2,664	3,959	5,932	2	55,858

Impairment review

The Company considers each restaurant to be a CGU and each CGU is reviewed annually for indicators of impairment.

Property, Plant and Equipment and Intangibles are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable or as otherwise required by relevant accounting standards.

Shortfalls between the carrying value of fixed assets and their recoverable amounts, being the higher of net realisable value and value-in-use, are recognised as impairments.

All impairment losses are recognised in the income statement, detail is contained within note 5.

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

9 INVESTMENTS

Cost and net book value	Investment in Subsidiaries £'000
At 28 February 2016, 26 February 2017 and 25 February 2018	1

Subsidiaries:

The Company owns more than 20% of the equity of the following undertakings:

Name of subsidiary	Class of Holding	Proportion held directly	Nature of business
Gourmet Burger Limited	Ordinary	100%	Dormant
GBK Franchises Limited	Ordinary	100%	Franchising
GBK Retail Limited	Ordinary	100%	Retail
Gourmet Burger Kitchen (Ireland) Limited	Ordinary	100%	Restaurants

Gourmet Burger Limited, GBK Franchises Limited, GBK Retail Limited are registered in England and Wales. Gourmet Burger Kitchen (Ireland) Limited is registered in Ireland.

The Company has relied on the exemption under section 401 of the Companies Act 2006 from preparing group accounts as the Company itself is an indirect subsidiary of Famous Brands Limited, a company registered in South Africa, and is included in the consolidated accounts of that company.

10 INVENTORIES	25 February 2018 £'000	26 February 2017 £'000
Raw materials and consumables	1,765	1,599

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

11	TRADE AND OTHER RECEIVABLES	25 February 2018 £'000	26 February 2017 £'000
	Current:		
	Trade receivables	1,441	865
	Amounts due from group undertakings	-	1,377
	Other receivables	29	5
	Prepayments and accrued income	1,209	1,333
		<u>2,679</u>	<u>3,580</u>
	Non-Current:		
	Other receivables	132	136
	Amounts due from group undertakings	795	-
		<u>927</u>	<u>136</u>
12	TRADE AND OTHER PAYABLES	25 February 2018 £'000	26 February 2017 £'000
	Current:		
	Trade payables	5,503	6,486
	Amounts due to group undertakings	5,477	6
	Other taxation and social security	2,315	2,057
	Other payables	1,139	1,016
	Accruals and deferred income	8,481	8,221
		<u>22,915</u>	<u>17,786</u>

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

13 DEFERRED TAX LIABILITIES

	25 February 2018 £'000	26 February 2017 £'000
At beginning of period	(1,194)	(1,072)
Change in tax rate	-	38
Adjustment in respect of prior periods	120	321
Origination/(reversal) of timing differences	430	(481)
At end of period	<u>(644)</u>	<u>(1,194)</u>

The elements of deferred taxation are as follows:

	25 February 2018 £'000	26 February 2017 £'000
Difference between accumulated depreciation and capital allowances	(659)	(1,205)
Short term timing differences	15	11
	<u>(644)</u>	<u>(1,194)</u>

The UK corporation tax rate of 19% was maintained in the year, however subsequent years rates have been changed (effective from 1 April 2018) to 17% (effective 1 April 2020). This will reduce the company's future current tax charge accordingly. The deferred tax liability at 25 February 2018 has been calculated based on these rates.

14 AMOUNTS DUE TO INTER-GROUP PARTIES

	25 February 2018 £'000	26 February 2017 £'000
Amounts due to inter-group parties	<u>(30,000)</u>	<u>(33,508)</u>

Gourmet Burger Kitchen Ltd is part of group wide long term funding arrangements as part of a wider group of companies and accesses this funding through loans from GBK Restaurants Ltd. Included in amounts due to group undertakings is £32.6m (2017: £33.5m) in relation to a loan arrangement with GBK Restaurants Ltd. The loan bears interest at 2.5%. Interest of £0.9m (2017: £1.7m) was charged during the period.

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

15	PROVISIONS	25 February 2018 £'000	26 February 2017 £'000
	Current:		
	Onerous lease provision (see below)	685	-
	Non current:		
	Onerous lease provision (see below)	1,081	-
	Onerous lease provision:		
	At the beginning of the period	-	-
	Provided for in the period	1,827	-
	Utilised in the period	(61)	-
	At the end of the period	1,766	-
16	SHARE CAPITAL	25 February 2018 £'000	26 February 2017 £'000
	Authorised:		
	1,000 (2017: 1,000) ordinary shares of £1 each	1	1
	Allotted, issued and fully paid:		
	560 (2017: 560) ordinary shares of £1 each	1	1
17	COMMITMENTS UNDER OPERATING LEASES	25 February 2018 £'000	26 February 2017 £'000
	Non-cancellable operating lease rentals are payable as follows:		
	Less than one year	9,815	8,471
	Between two and five years	38,882	33,119
	More than five years	93,208	82,768
		141,905	124,358

At 25 February 2018 the company operated 94 (2017: 84) restaurants which were all restaurants leased under operating leases.

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

18 RELATED PARTIES

During the period there were the following related party transactions:

- a) During the period, the company recognised £12,000 (2017: £19,000) of rental income from renting a flat to AD Murdoch, a director of the company.
- b) At the prior period end, the Company held accruals for un-invoiced revenue of £124,000 from GBK Franchises Ltd, a group undertaking, for management fees.
- c) Management fees of £2,828,000 (2017: £1,089,000) and interest payable fees of £843,000 (2017: £2,429,000) were invoiced from GBK Restaurants Ltd, a group undertaking. Both outstanding amounts were accrued at year end and are included in amounts due to group undertakings in trade and other payables. In the prior year, a credit of £712,000 relating to overcharged interest was repayable by GBK Restaurants Ltd post period end. The balance payable outstanding at period end is included in the balance as set out in "Due to Inter-Group Parties" in the Statement of financial position.
- d) The balances as set out in notes 11, 12 and 14.

19 CONTROLLING PARTY

The Company's immediate parent company is GBK Restaurants Limited, incorporated in the United Kingdom and conducting business from Suite C, 1 Lindsey Street, London EC1A 9HP.

The ultimately parent undertaking is Famous Brands Limited, a company incorporated in South Africa and listed on the Johannesburg Stock Exchange. Famous Brands Limited was the ultimate parent undertaking and the largest and smallest group for which consolidated financial statements including the company's position and results are produced. Copies of the consolidated financial statements are available at <http://www.famousbrands.co.za/#1>

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's principal financial instruments comprise bank borrowings (including overdrafts), loans from its parent undertaking, cash balances, trade and other receivables and trade and other payables which arise directly from its operations. The agreed policies for managing the financial risks are summarised below:

Interest rate risk.

The Company's exposure to market risk for changes in interest rates relates to the parent company's bank borrowings. When seeking borrowings the Directors consider the commercial terms available and, in consultation with their advisors, consider whether such terms should be fixed or variable and are appropriate to the business. The policy of the Company is to utilise its bank borrowings to stabilise the cash flows of the Company. Cash balances are placed so as to maximise interest earned while maintaining the liquidity requirements of the business. The Directors regularly review the placing of cash balances.

Liquidity Risk.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting arrangements.

Gourmet Burger Kitchen Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 25 February 2018

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	Carrying Amount £'000	Contractual Cash Flows £'000	2018			
			1 year or less £'000	1 to < 2 years £'000	2 to <5 years £'000	5 years and over £'000
Non-derivative financial liabilities						
Trade and other payables (including intra-group loans)	50,352	51,712	18,519	33,193	-	-
Provisions	1,766	1,766	685	366	481	234
	<u>52,118</u>	<u>53,478</u>	<u>19,204</u>	<u>33,559</u>	<u>481</u>	<u>234</u>
	Carrying Amount £'000	Contractual Cash Flows £'000	2017			
			1 year or less £'000	1 to < 2 years £'000	2 to <5 years £'000	5 years and over £'000
Non-derivative financial liabilities						
Trade and other payables (including intra-group loans)	51,294	53,491	18,624	838	34,029	-
	<u>51,294</u>	<u>53,491</u>	<u>18,624</u>	<u>838</u>	<u>34,029</u>	<u>-</u>

Credit risk.

The Company's credit risk is primarily attributable to its trade and other receivables from group companies as well as other parties and are from the geographical region of the United Kingdom. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current trading environment. The majority of balances owed relate to credit card receivables which do not present a credit risk.

Foreign currency risk.

Foreign exchange exposure is currently not significant to the company as all trade occurs in the UK. All intra-group debt is sterling denominated.

Capital management.

The company's primary objective in regard to capital management is to ensure that it continues to operate as a going concern and has sufficient funds at its disposal to grow the business going forward.

The company aims to maintain sufficient funds for working capital and future investment in order to meet growth targets. These matters are considered at regular intervals and form part of the business planning and budgeting processes.