

**Kingston Restaurants Limited**  
**Financial Statements**  
**For the year ended**  
**31 December 2018**



# Kingston Restaurants Limited

## Financial Statements

Year ended 31 December 2018

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# Kingston Restaurants Limited

## Officers and Professional Advisers

|                               |                                                                         |
|-------------------------------|-------------------------------------------------------------------------|
| <b>The board of directors</b> | G V Michniewicz<br>P A Michniewicz<br>H W Trickey<br>J P Betts          |
| <b>Company secretary</b>      | G V Michniewicz                                                         |
| <b>Registered office</b>      | 39 - 41 Jameson Street<br>Hull<br>East Riding of Yorkshire<br>HU1 3JA   |
| <b>Auditor</b>                | Ernst & Young LLP<br>1 More London Place<br>London<br>SE1 2AF           |
| <b>Bankers</b>                | HSBC<br>PO Box 105<br>33 Park Row<br>Leeds<br>West Yorkshire<br>LS1 1LD |
| <b>Solicitors</b>             | Rollits<br>Rowntree Wharf<br>Navigation Road<br>York<br>YO1 9WE         |

# Kingston Restaurants Limited

## Strategic Report

Year ended 31 December 2018

### Business review

The directors present a review of the development and performance of our business during the year and its position at the year-end. Our review is consistent with the size and nature of our business and is written in the context of risks and uncertainties we face.

The principal activity of the company during the year was the operation of quick service restaurants.

We consider that our key financial performance indicators are those that communicate the financial performance and strength of the company as a whole, these include turnover, gross profit and operating profit.

During 2018 the company has continued to deliver sound results in a difficult business climate. Gross profit has increased by £2,493,824 (7.7%). Operating profit has increased by £705,390 and this was largely due to the reduced level of restaurant closures due to re-image refurbishment works in comparison to the prior year as noted below.

In August 2018, the company sold one of its restaurants in Grimsby. The company now operates 15 restaurants.

Turnover comprises sales from company franchised restaurants. Thanks to strong sales growth from all restaurants in 2018, the total company turnover has increased by £4,407,738 to £52,000,963. The ongoing restaurants' strategy has had a positive impact on sales growth, which is in line with the directors' expectations and objectives.

An integral part of our re-imaging strategy is through the evolution of the culture and development of our people. This ongoing process will help us overcome the challenges we face with changing customer tastes and demands.

During the year, we completed our latest phase of significant capital re-investment to improve and enhance our customers' experience in our restaurants when our final restaurant was modernised to create the 'Experience of the Future' to improve the experience of both our customers' and people by enabling an easy, enjoyable and personalised experience. Additionally, at the same time, the second generation of re-image refurbishment works were undertaken and completed at the same store - these works essentially 'refreshing' the original re-image projects (principally of the dining areas) undertaken in earlier years.

## Kingston Restaurants Limited

### Strategic Report *(continued)*

Year ended 31 December 2018

#### Principal risks and uncertainties

The company operates in a highly competitive market. High street consumer behaviour impacts the company's turnover and variability of commodity prices impacts profitability.

The company is continually assessing all risks with an aim to mitigate any future threats these may have on the business.

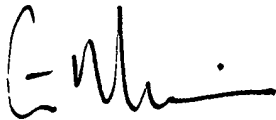
Management's plan to address and mitigate these risks is included in our capital investment and store re-image strategy noted above which is designed to keep us at the forefront of developments in the quick service restaurant sector.

As the negotiations around the UK's withdrawal from the European Union continue, there remains significant uncertainty in the UK economy generally. In the circumstances, the extent to which the company's operations and financial performance are affected will only become clear as the terms of the agreement emerge. The directors believe the key risks facing the business include potential food cost inflation and the impact of increased uncertainty surrounding the UK economy.

Whilst the directors recognise the risks associated with Brexit, they believe that these risks will be mitigated by the strength of the McDonald's brand and the company's strong balance sheet.

With these risks and uncertainties in mind, we are aware that any plans for the future development of the business may be subject to unforeseen future events outside our control, hence we are constantly assessing our plans in line with the current environment.

This report was approved by the board of directors on 17<sup>th</sup> June 2019 and signed on behalf of the board by:



G V Michniewicz  
Director

Registered office:  
39 - 41 Jameson Street  
Hull  
East Riding of Yorkshire  
HU1 3JA

# Kingston Restaurants Limited

## Directors' Report

Year ended 31 December 2018

The directors present their report and the financial statements of the company for the year ended 31 December 2018.

### Directors

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

G V Michniewicz  
P A Michniewicz  
H W Trickey  
J P Betts

### Dividends

No dividends were declared during the year ended 31 December 2018. A final dividend of £400,000 for the year was declared on 13 March 2019.

### Future developments

The level of business and the period end financial position remain satisfactory for the company and the directors are confident to be able to develop the business further in the future.

### Employment of disabled persons

The company operates an equal opportunities policy with regard to recruitment and seeks to offer suitable work and training wherever practicable to persons with disabilities. The policy of the company is to ensure that disabled applicants for employment are given full and fair consideration having regard for their particular aptitudes and abilities. Existing disabled employees are given equal access to training, career development and promotion opportunities within the company. In the event of employees becoming disabled whilst in the employment of the company, all reasonable means are explored to achieve retention in employment in the same or an alternative capacity.

### Employee involvement

An open management policy is operated whereby all members of staff (including part-time and casual staff) are briefed regularly on matters affecting the company by means of regular store meetings and communications, together with staff appraisals and feedback sessions. In addition, there is a bulletin board in each restaurant where memoranda relating to company policy are displayed.

## Kingston Restaurants Limited

### Directors' Report *(continued)*

Year ended 31 December 2018

#### Financial instruments

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

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

In respect of bank balances, the liquidity risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of overdraft facilities at floating rates of interest.

In respect of loans these comprise of bank loans. The interest rate on the loans are variable but the monthly repayments are fixed. The company manages the liquidity risk by ensuring there are sufficient funds to meet the payments.

Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due.

#### Going concern

The company is in a net current liabilities position at the balance sheet date, however the company is profitable and is expected to continue to grow. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### Research and development

The company does not carry out any independent or specific research and development. However, McDonald's Restaurants Limited and its associated companies carries out research and development on behalf of all franchisees. The company makes a contribution towards this through its existing payments to McDonald's Restaurants Limited.

#### Auditor

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

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

In accordance with s485 of the Companies Act 2006, the auditor, Ernst & Young LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

## Kingston Restaurants Limited

### Directors' Report *(continued)*

Year ended 31 December 2018

This report was approved by the board of directors on 17<sup>th</sup> June 2019 and signed on behalf of the board by:



G V Michniewicz  
Director

Registered office:  
39 - 41 Jameson Street  
Hull  
East Riding of Yorkshire  
HU1 3JA

## **Kingston Restaurants Limited**

### **Directors' Responsibilities Statement**

**Year ended 31 December 2018**

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 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 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

**Independent Auditor's Report to the Members of Kingston Restaurants Limited****Year ended 31 December 2018****Opinion**

We have audited the financial statements of Kingston Restaurants Limited (the 'company') for the year ended 31 December 2018 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

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

**Conclusions relating to going concern**

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.

# **Independent Auditor's Report to the Members of Kingston Restaurants Limited (continued)**

**Year ended 31 December 2018**

## **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

- adequate accounting records have not been kept, 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.

**Independent Auditor's Report to the Members of Kingston Restaurants Limited (continued)**

**Year ended 31 December 2018**

**Responsibilities of directors**

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

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

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Use of our report**

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

*Ernst & Young LLP*

Judith Smith (Senior Statutory Auditor)

For and on behalf of  
Ernst & Young LLP  
Statutory Auditor  
1 More London Place  
London  
SE1 2AF

21/6/19

# Kingston Restaurants Limited

## Statement of Comprehensive Income

Year ended 31 December 2018

|                                                                     | Note      | 2018<br>£               | 2017<br>£      |
|---------------------------------------------------------------------|-----------|-------------------------|----------------|
| <b>Turnover</b>                                                     | <b>4</b>  | <b>52,000,963</b>       | 47,593,225     |
| Cost of sales                                                       |           | <b>(17,074,837)</b>     | (15,160,923)   |
| <b>Gross profit</b>                                                 |           | <b>34,926,126</b>       | 32,432,302     |
| Administrative expenses                                             |           | <b>(33,792,433)</b>     | (31,940,672)   |
| Other operating income                                              | <b>5</b>  | <b>248,576</b>          | 185,249        |
| <b>Operating profit</b>                                             | <b>6</b>  | <b>1,382,269</b>        | 676,879        |
| Interest receivable and similar income                              | <b>9</b>  | <b>4,550</b>            | 1,030          |
| Interest payable and similar expenses                               | <b>10</b> | <b>(49,202)</b>         | (33,913)       |
| <b>Profit before taxation</b>                                       |           | <b>1,337,617</b>        | 643,996        |
| Tax on profit                                                       | <b>11</b> | <b>(255,880)</b>        | (109,721)      |
| <b>Profit for the financial year and total comprehensive income</b> |           | <b><u>1,081,737</u></b> | <u>534,275</u> |

All the activities of the company are from continuing operations.

The notes on pages 15 to 26 form part of these financial statements.

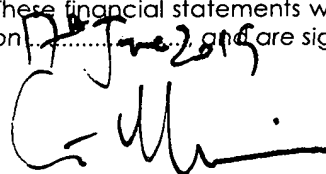
# Kingston Restaurants Limited

## Statement of Financial Position

31 December 2018

|                                                                | Note | 2018<br>£          | 2017<br>£          |
|----------------------------------------------------------------|------|--------------------|--------------------|
| <b>Fixed assets</b>                                            |      |                    |                    |
| Intangible assets                                              | 12   | 1,419,852          | 1,463,564          |
| Tangible assets                                                | 13   | 9,421,788          | 9,842,373          |
|                                                                |      | <u>10,841,640</u>  | <u>11,305,937</u>  |
| <b>Current assets</b>                                          |      |                    |                    |
| Stocks                                                         | 14   | 217,090            | 166,686            |
| Debtors: due within one year                                   | 15   | 581,237            | 719,304            |
| Debtors: due after more than one year                          | 15   | 1,545,575          | 2,169,432          |
| Cash at bank and in hand                                       |      | 2,404,598          | 2,080,126          |
|                                                                |      | <u>4,748,500</u>   | <u>5,135,548</u>   |
| <b>Creditors: amounts falling due within one year</b>          | 16   | <u>(5,872,724)</u> | <u>(6,223,399)</u> |
| <b>Net current liabilities</b>                                 |      | <u>(1,124,224)</u> | <u>(1,087,851)</u> |
| <b>Total assets less current liabilities</b>                   |      | <u>9,717,416</u>   | <u>10,218,086</u>  |
| <b>Creditors: amounts falling due after more than one year</b> | 17   | <u>(2,747,323)</u> | <u>(4,349,610)</u> |
| <b>Provisions</b>                                              |      |                    |                    |
| Deferred taxation                                              | 18   | <u>(252,513)</u>   | <u>(232,633)</u>   |
| <b>Net assets</b>                                              |      | <u>6,717,580</u>   | <u>5,635,843</u>   |
| <b>Capital and reserves</b>                                    |      |                    |                    |
| Called up share capital                                        | 22   | 860,000            | 860,000            |
| Profit and loss account                                        | 23   | 5,857,580          | 4,775,843          |
| <b>Shareholders' funds</b>                                     |      | <u>6,717,580</u>   | <u>5,635,843</u>   |

These financial statements were approved by the board of directors and authorised for issue on 17 June 2019 and are signed on behalf of the board by:



G V Michniewicz  
Director

Company registration number: 03427721

The notes on pages 15 to 26 form part of these financial statements.

# Kingston Restaurants Limited

## Statement of Changes in Equity

Year ended 31 December 2018

|                                                | Called up<br>share<br>capital<br>£ | Profit and<br>loss<br>account<br>£ | Total<br>£              |
|------------------------------------------------|------------------------------------|------------------------------------|-------------------------|
| <b>At 1 January 2017</b>                       | 860,000                            | 4,241,568                          | 5,101,568               |
| Profit for the year                            |                                    | 534,275                            | 534,275                 |
| <b>Total comprehensive income for the year</b> | —                                  | 534,275                            | 534,275                 |
| <b>At 31 December 2017</b>                     | 860,000                            | 4,775,843                          | <b>5,635,843</b>        |
| Profit for the year                            |                                    | 1,081,737                          | <b>1,081,737</b>        |
| <b>Total comprehensive income for the year</b> | —                                  | 1,081,737                          | <b>1,081,737</b>        |
| <b>At 31 December 2018</b>                     | <u>860,000</u>                     | <u>5,857,580</u>                   | <u><b>6,717,580</b></u> |

The notes on pages 15 to 26 form part of these financial statements.

# Kingston Restaurants Limited

## Statement of Cash Flows

Year ended 31 December 2018

|                                                       | 2018<br>£               | 2017<br>£               |
|-------------------------------------------------------|-------------------------|-------------------------|
| <b>Cash flows from operating activities</b>           |                         |                         |
| Profit for the financial year                         | 1,081,737               | 534,275                 |
| <i>Adjustments for:</i>                               |                         |                         |
| Depreciation of tangible assets                       | 1,295,296               | 1,177,115               |
| Amortisation of intangible assets                     | 103,838                 | 104,807                 |
| Interest receivable and similar income                | (4,550)                 | (1,030)                 |
| Interest payable and similar expenses                 | 49,202                  | 33,913                  |
| Gains on disposal of tangible assets                  | (76,147)                | (36,333)                |
| Loss/(gains) on disposal of intangible assets         | 18,243                  | (14,625)                |
| Tax on profit                                         | 255,880                 | 109,721                 |
| Accrued expenses/(income)                             | 147,533                 | (56,822)                |
| <i>Changes in:</i>                                    |                         |                         |
| Stocks                                                | (50,404)                | (19,651)                |
| Trade and other debtors                               | 761,924                 | (1,489,215)             |
| Trade and other creditors                             | (618,869)               | 2,617,340               |
| Cash generated from operations                        | 2,963,683               | 2,959,495               |
| Interest paid                                         | (49,202)                | (33,913)                |
| Interest received                                     | 4,550                   | 1,030                   |
| Tax paid                                              | (201,000)               | (106,166)               |
| Net cash from operating activities                    | <u>2,718,031</u>        | <u>2,820,446</u>        |
| <b>Cash flows from investing activities</b>           |                         |                         |
| Purchase of tangible assets                           | (1,462,608)             | (5,393,664)             |
| Proceeds from sale of tangible assets                 | 650,000                 | 171,765                 |
| Purchase of intangible assets                         | (78,369)                | (99,515)                |
| Proceeds from sale of intangible assets               | -                       | 30,000                  |
| Net cash used in investing activities                 | <u>(890,977)</u>        | <u>(5,291,414)</u>      |
| <b>Cash flows from financing activities</b>           |                         |                         |
| Proceeds from borrowings                              | 750,000                 | 3,800,000               |
| Repayments of borrowings                              | (2,252,582)             | (1,107,273)             |
| Net cash (used in)/from financing activities          | <u>(1,502,582)</u>      | <u>2,692,727</u>        |
| <b>Net increase in cash and cash equivalents</b>      | <b>324,472</b>          | <b>221,759</b>          |
| <b>Cash and cash equivalents at beginning of year</b> | <b>2,080,126</b>        | <b>1,858,367</b>        |
| <b>Cash and cash equivalents at end of year</b>       | <b><u>2,404,598</u></b> | <b><u>2,080,126</u></b> |

The notes on pages 15 to 26 form part of these financial statements.

# Kingston Restaurants Limited

## Notes to the Financial Statements

Year ended 31 December 2018

### 1. General information

The company is a private company limited by shares, registered in England and Wales. The address of the registered office is 39 - 41 Jameson Street, Hull, East Riding of Yorkshire, HU1 3JA.

### 2. Statement of compliance

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

### 3. Accounting policies

#### (a) Basis of preparation

The financial statements have been prepared on the historical cost basis.

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

#### (b) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

#### Franchise rights and intangible assets

Franchise rights acquired on each business combination are capitalised, classified as an asset on the statement of financial position and amortised on a straight line basis over its useful life.

The company establishes an estimate of the useful life of franchise rights and intangible assets arising on business combinations. This estimate is based on the term of the franchise of each operating restaurant.

#### Plant and equipment

The company's accounting policy for plant and equipment assets is set out in notes 3(j-l). Estimated useful lives of plant and equipment are based on management's judgement and historical experience with similar assets.

#### (c) Revenue recognition

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied stated net of discounts and of Value Added Tax.

Revenue from sale of goods is recognised at the point of sale to the customer.

# Kingston Restaurants Limited

## Notes to the Financial Statements (continued)

Year ended 31 December 2018

### 3. Accounting policies (continued)

#### (d) Current and deferred tax

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

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

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

#### (e) Deferred income

Deferred income relates to contributions received in connection with the purchase of tangible fixed assets and is recognised at the fair value of the asset received or receivable.

Deferred income is measured using the accrual model.

Under the accrual model, deferred income relating to assets is recognised in income on a systematic basis over the expected useful life of the asset. Where part of the contribution relating to an asset is deferred, it is recognised as deferred income and not deducted from the carrying amount of the asset.

#### (f) Operating leases

The company's restaurant premises are leased from McDonald's Restaurants Limited under non-cancellable operating leases with expiry terms of more than five years. The rental payments are calculated on a monthly basis and are substantially based on sales income generated. The aggregate benefit of lease incentives is recognised on a straight line basis over the lease term.

#### (g) Franchise rights

The amount classified as franchise rights in the financial statements relates to the amount invoiced in connection with the acquisition of operating restaurants, and is separate to the amount identified and invoiced as plant and equipment.

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

# Kingston Restaurants Limited

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

Year ended 31 December 2018

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

#### (h) Intangible assets

Intangible assets are initially recorded at cost, and are subsequently stated at cost less any accumulated amortisation and impairment losses.

#### (i) Amortisation

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

Amortisation is calculated by reference to terms of property lease periods and franchise agreements subject to a maximum of 20 years.

|                       |   |                                        |
|-----------------------|---|----------------------------------------|
| Franchise rights      | - | 20 years                               |
| Franchise fees & SDLT | - | Shorter of head lease term or 20 years |

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

#### (j) Tangible fixed assets

Tangible assets are initially recorded at cost, and subsequently stated at cost less any accumulated depreciation and impairment losses.

#### (k) Depreciation

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

|                     |   |                            |
|---------------------|---|----------------------------|
| Plant and machinery | - | 5 - 20 years straight line |
|---------------------|---|----------------------------|

#### (l) Impairment of fixed assets

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

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

#### (m) Stocks

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

# Kingston Restaurants Limited

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

Year ended 31 December 2018

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

#### (n) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash and cash at bank.

#### (o) Provisions

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

Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset.

#### (p) Financial instruments

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

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

Debt instruments are subsequently measured at amortised cost.

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

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

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

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

# Kingston Restaurants Limited

## Notes to the Financial Statements (continued)

Year ended 31 December 2018

### 3. Accounting policies (continued)

#### (q) Defined contribution plans

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

### 4. Turnover

Turnover arises from:

|               | 2018<br>£         | 2017<br>£         |
|---------------|-------------------|-------------------|
| Sale of goods | <u>52,000,963</u> | <u>47,593,225</u> |

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

### 5. Other operating income

|                                                                       | 2018<br>£      | 2017<br>£      |
|-----------------------------------------------------------------------|----------------|----------------|
| Amortisation of contributions in connection with restaurant re-images | <u>248,576</u> | <u>185,249</u> |

### 6. Operating profit

Operating profit or loss is stated after charging/crediting:

|                                               | 2018<br>£        | 2017<br>£        |
|-----------------------------------------------|------------------|------------------|
| Amortisation of intangible assets             | 103,838          | 104,807          |
| Depreciation of tangible assets               | 1,295,296        | 1,177,115        |
| Gains on disposal of tangible assets          | (76,147)         | (36,333)         |
| Loss/(gains) on disposal of intangible assets | 18,243           | (14,625)         |
| Cost of stocks recognised as an expense       | 17,074,837       | 15,160,923       |
| Operating lease rentals                       | <u>7,373,731</u> | <u>6,715,527</u> |

### 7. Auditor's remuneration

|                                                        | 2018<br>£     | 2017<br>£     |
|--------------------------------------------------------|---------------|---------------|
| Fees payable for the audit of the financial statements | <u>35,000</u> | <u>35,000</u> |

# Kingston Restaurants Limited

## Notes to the Financial Statements (continued)

Year ended 31 December 2018

### 8. Staff costs

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

|                       | 2018<br>No.  | 2017<br>No.  |
|-----------------------|--------------|--------------|
| Restaurant staff      | 1,419        | 1,374        |
| Office and management | 63           | 64           |
|                       | <u>1,482</u> | <u>1,438</u> |

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

|                       | 2018<br>£         | 2017<br>£         |
|-----------------------|-------------------|-------------------|
| Wages and salaries    | 14,707,244        | 13,733,602        |
| Social security costs | 761,508           | 693,558           |
| Other pension costs   | 115,769           | 67,932            |
|                       | <u>15,584,521</u> | <u>14,495,092</u> |

No directors were remunerated for their services by Kingston Restaurants Limited (2017 - £nil). The company pays Wicz Limited for the provision of management services. Details are provided in note 25.

### 9. Interest receivable and similar income

|                                       | 2018<br>£    | 2017<br>£    |
|---------------------------------------|--------------|--------------|
| Interest on cash and cash equivalents | <u>4,550</u> | <u>1,030</u> |

### 10. Interest payable and similar expenses

|                                        | 2018<br>£     | 2017<br>£     |
|----------------------------------------|---------------|---------------|
| Interest on banks loans and overdrafts | <u>49,202</u> | <u>33,913</u> |

# Kingston Restaurants Limited

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

Year ended 31 December 2018

### 11. Tax on profit

#### Major components of tax expense

|                                                | 2018<br>£      | 2017<br>£      |
|------------------------------------------------|----------------|----------------|
| <b>Current tax:</b>                            |                |                |
| UK current tax expense                         | 236,000        | 78,993         |
| <b>Deferred tax:</b>                           |                |                |
| Origination and reversal of timing differences | 19,880         | 30,728         |
| <b>Tax on profit</b>                           | <b>255,880</b> | <b>109,721</b> |

#### Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is higher than (2017: lower than) the standard rate of corporation tax in the UK of 19% (2017: 19.25%).

|                                                    | 2018<br>£      | 2017<br>£      |
|----------------------------------------------------|----------------|----------------|
| Profit on ordinary activities before taxation      | 1,337,617      | 643,996        |
| Profit on ordinary activities by rate of tax       | 254,147        | 123,969        |
| Effect of expenses not deductible for tax purposes | 1,733          | (14,248)       |
| <b>Tax on profit</b>                               | <b>255,880</b> | <b>109,721</b> |

Company tax rates have reduced to 19% from 1 April 2017 and are set to reduce further to 17% from 1 April 2020, as provided by the Finance Act 2016.

# Kingston Restaurants Limited

## Notes to the Financial Statements (continued)

Year ended 31 December 2018

### 12. Intangible assets

|                            | Franchise<br>rights<br>£ | Franchise<br>Fees & SDLT<br>£ | Total<br>£       |
|----------------------------|--------------------------|-------------------------------|------------------|
| <b>Cost</b>                |                          |                               |                  |
| At 1 January 2018          | 1,500,468                | 575,859                       | <b>2,076,327</b> |
| Additions                  | –                        | 78,369                        | <b>78,369</b>    |
| Disposals                  | –                        | (38,735)                      | <b>(38,735)</b>  |
| <b>At 31 December 2018</b> | <b>1,500,468</b>         | <b>615,493</b>                | <b>2,115,961</b> |
| <b>Amortisation</b>        |                          |                               |                  |
| At 1 January 2018          | 373,773                  | 238,990                       | <b>612,763</b>   |
| Charge for the year        | 76,365                   | 27,473                        | <b>103,838</b>   |
| Disposals                  | –                        | (20,492)                      | <b>(20,492)</b>  |
| <b>At 31 December 2018</b> | <b>450,138</b>           | <b>245,971</b>                | <b>696,109</b>   |
| <b>Carrying amount</b>     |                          |                               |                  |
| <b>At 31 December 2018</b> | <b>1,050,330</b>         | <b>369,522</b>                | <b>1,419,852</b> |
| At 31 December 2017        | 1,126,695                | 336,869                       | 1,463,564        |

Amortisation of intangible assets is included in administrative expenses.

### 13. Tangible assets

|                            | Plant and<br>machinery<br>£ | Total<br>£         |
|----------------------------|-----------------------------|--------------------|
| <b>Cost</b>                |                             |                    |
| At 1 January 2018          | 14,668,319                  | <b>14,668,319</b>  |
| Additions                  | 1,462,608                   | <b>1,462,608</b>   |
| Disposals                  | (2,060,659)                 | <b>(2,060,659)</b> |
| <b>At 31 December 2018</b> | <b>14,070,268</b>           | <b>14,070,268</b>  |
| <b>Depreciation</b>        |                             |                    |
| At 1 January 2018          | 4,825,946                   | <b>4,825,946</b>   |
| Charge for the year        | 1,295,296                   | <b>1,295,296</b>   |
| Disposals                  | (1,472,762)                 | <b>(1,472,762)</b> |
| <b>At 31 December 2018</b> | <b>4,648,480</b>            | <b>4,648,480</b>   |
| <b>Carrying amount</b>     |                             |                    |
| <b>At 31 December 2018</b> | <b>9,421,788</b>            | <b>9,421,788</b>   |
| At 31 December 2017        | 9,842,373                   | 9,842,373          |

### 14. Stocks

|                                     | 2018<br>£      | 2017<br>£ |
|-------------------------------------|----------------|-----------|
| Finished goods and goods for resale | <b>217,090</b> | 166,686   |

# Kingston Restaurants Limited

## Notes to the Financial Statements (continued)

Year ended 31 December 2018

### 15. Debtors

Debtors falling due within one year are as follows:

|               | 2018           | 2017           |
|---------------|----------------|----------------|
|               | £              | £              |
| Prepayments   | 64,232         | 67,451         |
| Other debtors | 517,005        | 651,853        |
|               | <u>581,237</u> | <u>719,304</u> |

Debtors falling due after one year are as follows:

|               | 2018             | 2017             |
|---------------|------------------|------------------|
|               | £                | £                |
| Other debtors | <u>1,545,575</u> | <u>2,169,432</u> |

Other debtors relates to contributions in connection with restaurant re-images.

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

|                                 | 2018             | 2017             |
|---------------------------------|------------------|------------------|
|                                 | £                | £                |
| Bank loans and overdrafts       | 1,425,762        | 1,714,893        |
| Trade creditors                 | 1,994,094        | 2,275,233        |
| Accruals and deferred income    | 1,203,486        | 1,067,344        |
| Corporation tax                 | 75,649           | 40,649           |
| Social security and other taxes | 1,173,733        | 1,125,280        |
|                                 | <u>5,872,724</u> | <u>6,223,399</u> |

Deferred income relates to contributions in connection with restaurant re-images.

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

|                              | 2018             | 2017             |
|------------------------------|------------------|------------------|
|                              | £                | £                |
| Bank loans and overdrafts    | 944,600          | 2,158,051        |
| Accruals and deferred income | 1,802,723        | 2,191,559        |
|                              | <u>2,747,323</u> | <u>4,349,610</u> |

The bank loans are unsecured and interest is charged at 1% over bank base rate. Loan repayments are made in equal monthly instalments and at 31 December 2018 the loans are all wholly repayable within 5 years.

Deferred income relates to contributions in connection with restaurant re-images.

# Kingston Restaurants Limited

## Notes to the Financial Statements (continued)

Year ended 31 December 2018

### 18. Provisions

|                            | Deferred tax<br>(note 19)<br>£ |
|----------------------------|--------------------------------|
| At 1 January 2018          | 232,633                        |
| Additions                  | 19,880                         |
| <b>At 31 December 2018</b> | <b><u>252,513</u></b>          |

### 19. Deferred tax

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

|                                  | 2018<br>£      | 2017<br>£      |
|----------------------------------|----------------|----------------|
| Included in provisions (note 18) | <u>252,513</u> | <u>232,633</u> |

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

|                                | 2018<br>£      | 2017<br>£      |
|--------------------------------|----------------|----------------|
| Accelerated capital allowances | <u>252,513</u> | <u>232,633</u> |

The reversal of deferred tax liabilities expected to occur during the year commencing 1 January 2019 is not expected to be material.

### 20. Employee benefits

#### Defined contribution plans

The amount recognised in profit or loss as an expense in relation to defined contribution plans was £115,769 (2017: £67,932).

### 21. Financial instruments

The carrying amount for each category of financial instrument is as follows:

|                                                                              | 2018<br>£        | 2017<br>£        |
|------------------------------------------------------------------------------|------------------|------------------|
| <b>Financial assets that are debt instruments measured at amortised cost</b> |                  |                  |
| Financial assets that are debt instruments measured at amortised cost        | <u>4,467,178</u> | <u>4,901,411</u> |
| <b>Financial liabilities measured at amortised cost</b>                      |                  |                  |
| Financial liabilities measured at amortised cost                             | <u>6,560,965</u> | <u>8,113,700</u> |

Financial assets measured at amortised cost comprise cash at bank and other debtors.

Financial liabilities measured at amortised cost comprise trade and other creditors, bank loans and accruals.

# Kingston Restaurants Limited

## Notes to the Financial Statements (continued)

Year ended 31 December 2018

### 22. Called up share capital

Issued, called up and fully paid

|                                | 2018           |                   | 2017           |                   |
|--------------------------------|----------------|-------------------|----------------|-------------------|
|                                | No.            | £                 | No.            | £                 |
| 'A' Ordinary shares of £1 each | 430,000        | 430,000.00        | 430,000        | 430,000.00        |
| 'B' Ordinary shares of £1 each | 430,000        | 430,000.00        | 430,000        | 430,000.00        |
|                                | <u>860,000</u> | <u>860,000.00</u> | <u>860,000</u> | <u>860,000.00</u> |

The 'A' ordinary and 'B' ordinary shares constitute separate classes of shares and shall rank pari passu with each other in all respects subject to those provisions as laid out in the shareholders agreement.

### 23. Reserves

Profit and loss account

This reserve records retained earnings and accumulated losses.

### 24. Operating leases

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

|                                              | 2018              | 2017              |
|----------------------------------------------|-------------------|-------------------|
|                                              | £                 | £                 |
| Not later than 1 year                        | 7,987,000         | 6,750,000         |
| Later than 1 year and not later than 5 years | 31,948,000        | 27,000,000        |
| Later than 5 years                           | 39,935,000        | 33,750,000        |
|                                              | <u>79,870,000</u> | <u>67,500,000</u> |

The company's restaurant premises are leased from McDonald's Restaurants Limited under non-cancellable operating leases expiring after more than five years. It is not possible to quantify the commitments due under the leases because of the variable basis of the rental payments, which are substantially based on annual sales income generated. The directors estimate that the rental payments over the whole lease term will be in the region of £79,870,000.

## Kingston Restaurants Limited

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

Year ended 31 December 2018

#### 25. Related party transactions

During the year the company purchased services from McDonald's Restaurants Limited, which owns 430,000 'A' ordinary shares of £1 each in the company. The purchases were made up as follows:-

Rent - £7,373,731 (2017 - £6,715,527), advertising - £2,262,048 (2017 - £2,076,935) and service charges - £2,548,632 (2017 - £2,335,894).

The company made payments to McDonald's Restaurants Limited totalling £797,755 (2017 - £nil) in relation to the acquisition of an additional restaurant.

In addition to the above, the company also made payments totalling £197,266, (2017 - £5,337,406) to McDonald's Restaurants Limited in respect of re-imaging certain of the company's restaurants. The company is also due to receive contributions in the sum of £76,784 (2017 - £1,729,680) from McDonald's Restaurants Limited towards the cost of these restaurant re-images.

As at 31 December 2018, the company owed McDonald's Restaurants Limited £1,381,816 (2017 - £1,672,033) in respect of rent, advertising, service charges and restaurant re-imaging costs.

As at 31 December 2018, McDonald's Restaurants Limited owed the company £2,047,179 (2017 - £2,712,272) in respect of contributions towards the cost of restaurant re-images.

During the year the company paid Wicz Limited, a company in which G V and P A Michniewicz are shareholders and directors, £689,544 (2017 - £625,495) for various services. At the balance sheet date £128,182 (net) was due to Wicz Limited (2017 - £168,052).

In the opinion of the directors, there is no ultimate controlling party as the company has a joint venture agreement in place.