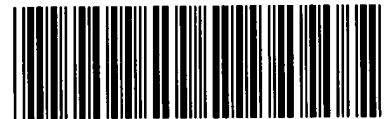


# Costa Beijing Limited

Annual Report and Financial Statements

for the Period from 1 March 2019 to 31 December 2019

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## **COSTA BEIJING LIMITED**

### **Contents**

<b>Company Information</b>	<b>1</b>
<b>Directors' Report</b>	<b>2 to 5</b>
<b>Statement of Directors' Responsibilities</b>	<b>6</b>
<b>Independent Auditor's Report</b>	<b>7 to 9</b>
<b>Income Statement</b>	<b>10</b>
<b>Balance Sheet</b>	<b>11</b>
<b>Statement of Changes in Equity</b>	<b>12</b>
<b>Notes to the Financial Statements</b>	<b>13 to 23</b>

**COSTA BEIJING LIMITED**

**Company Information**

<b>Directors</b>	J Crookall G McDonald
<b>Company secretary</b>	R Fairhurst
<b>Registered No.:</b>	6190419
<b>Registered office</b>	Costa House, Houghton Hall Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG
<b>Statutory auditor</b>	Ernst & Young LLP 400 Capability Green, Luton, Bedfordshire, LU1 3LU

## **COSTA BEIJING LIMITED**

### **Directors' Report for the 43 Weeks Ended 31 December 2019**

The Company is reporting a 43 weeks financial period ended 31 December 2019 to enable its year end to align with its ultimate parent The Coca-Cola Company, which acquired the Company in January 2019.

This report has been prepared in accordance with the special provisions of section 381 of the Companies Act 2006 relating to small companies. The directors have taken exemption under this regime not to disclose the strategic report.

#### **Directors' of the Company**

The directors, who held office during the period, were as follows:

S Highfield (resigned 31 August 2020)

G McDonald (appointed 2 December 2019)

D Paul (resigned 29 November 2019)

K Seljeflot (resigned 11 March 2020)

The following director was appointed after the period end:

J Crookall (appointed 11 March 2020)

#### **Principal activity**

The principal activity of the company is that of a holding company, maintaining oversight over its subsidiaries but not participating in any trading activity. However, the company is well placed to look at strategic opportunities by capitalising on Coca-Cola's strength and market expertise

#### **Principal risks and uncertainties**

##### **Climate Change**

Risk: Climate change may impact coffee bean prices.

Mitigation: Costa recognises that to have a sustainable coffee business we need to invest in a sustainable coffee supply, ensuring that our coffee is grown in a way that protects the environment and allows the communities growing our coffee to thrive. We only buy Rainforest Alliance certified coffee. The Rainforest Alliance is a non-profit organisation, working to create a future in which people and nature thrive in harmony. By working together with diverse stakeholders including farmers, businesses, consumers and more, the Rainforest Alliance is building an alliance to improve livelihoods, protect biodiversity, amplify the voices of farmers and forest communities, and help them mitigate and adapt to climate change.

##### **Brexit**

Risk: A 'no deal' Brexit carries the increased risk of disruption to Coffee exports, raw material imports, the availability of labour and in addition, an increased financial exposure on Foreign Exchange and Duty Tariffs.

Mitigation: The directors of the company are closely monitoring the impact of UK's exit from the European Union. The risks being identified and mitigated are split between macro and micro-economics. The macro-economic risks relate to consumer attitude and behaviour, whilst micro-economic risks are the export supply of roasted coffee, raw material imports, the hiring and retention of labour, plus financial related risks around Foreign Exchange and Duty Tariffs. We have contingency plans in place and continue to evolve these with our major suppliers to help maintain the supply of key products lines and alternatives. The Company will continue to monitor the progress of Brexit and mitigate the risks identified.

##### **Laws and regulations**

Changes in, or failure to comply with, the laws and regulations applicable to our business operations could increase our costs or reduce our net operating revenues.

## **COSTA BEIJING LIMITED**

### **Directors' Report for the 43 Weeks Ended 31 December 2019**

#### **Principal risks and uncertainties (continued)**

##### **Coronavirus (COVID-19)**

**Risk:** From March 2020 the COVID-19 global pandemic arose in the UK and introduced significant uncertainty for the UK economy.

**Mitigation:** The Directors consider the Company, a Subsidiary of Costa International Limited, to be a member of the Costa group of UK domiciled companies headed by Costa Limited. The COVID-19 risk mitigation detailed below is applicable to the Costa group of companies.

The Company's Directors have updated the plans for 2020 based on the impact of COVID-19 and have built a strategy for reset and growth in three phases:

- Managing the crisis - focusing on looking after our people and ruthlessly prioritising spend;
- Resetting to emerge stronger - preparing to win in our core markets and support winning propositions such as Costa Express, Proud to Serve and Ready to Drink;
- Invest in growth for the future - investing in initiatives that allow us to stay ahead of long-term trends and for future international launches.

Strong steps have been taken to protect the business and manage cash through the crisis to ensure the business can come out of the crisis stronger and ready to grow in the future. The following 9 areas have been identified as priorities:

- Prioritise the health and wellbeing of our people, customers and consumers. The Company ensuring that it follows government guidelines, delivered a rapid response to close stores (97% of the UK stores were initially closed) and set up Costa Express to continue to operate safely. The Company is monitoring the situation and following the Government guidelines to reassure its customers and employees on any decisions taken to re-open shops. The business has offered goodwill gestures to support the national efforts including free coffee to medical teams and care packages to key workers.
- Ruthless focus on discretionary spend including prioritisation and accessing government support where necessary.
- Must win in the UK Retail and Costa Express as footfall returns to recover sales at pace. The Company is focusing on changes in customer sentiment and needs and providing contactless Drive-Thru and deliver to support re-opening and contactless Costa Express ordering.
- Review retail basics and franchise opportunities.
- Continue to support Costa Express, Proud to Serve, Ready to Drink and At Home launches.
- Invest in initiatives that allow the business to stay ahead of long-term changes in consumer trends.
- Plan for launches in key international markets to ensure we maximise in 2021.
- Continue 'Must Do' technology programmes.

#### **Future developments**

No significant developments are expected

#### **Going concern**

In order to support the Directors' assessment of going concern, the Company has received a parental letter of support from Costa Limited. This confirms that Costa Limited will support the company as necessary to meet its liabilities as they fall due and has the ability to do so for at least 12 months after the date of these financial statements. As a result, the directors have concluded that it is appropriate to adopt the going concern basis of accounting in preparing these annual financial statements.

In forming this conclusion, the Directors have considered the going concern assessment prepared by the directors of Costa Limited.

The Directors of Costa Limited have undertaken a thorough assessment of Costa Limited and its UK domiciled subsidiaries (the Group) financial forecasts to end of 2021, including the impact of COVID-

## **COSTA BEIJING LIMITED**

### **Directors' Report for the 43 Weeks Ended 31 December 2019**

#### **Going concern (continued)**

19 in the UK. As the Group has a cash-pooling arrangement with financial support provided from Costa Limited to its UK Domiciled subsidiaries, the going-concern assessment has been conducted on a Group basis. The Group has modelled downturn scenarios which have been detailed below that include mitigations reducing discretionary marketing and capital spend and, where appropriate, utilising government support for furloughed colleagues and deferring VAT and tax payments. As a result of the modelling, the Directors have deemed it appropriate to adopt the going-concern basis in the preparation of the financial statements of the Company for the financial period ended 31 December 2019.

The Group is funded by its operating profits and working capital improvements. As at 31 December 2019, the Group held a substantial cash balance of £317m and had no external borrowing. Despite the strong position of the Group's financial position, it has become clear that COVID-19 has introduced a significant amount of economic uncertainty in 2020 for the retail and hospitality sectors, which has impacted the Group's ability to generate revenue and profit. As at the date of signing, there remains no external debt facilities drawn down on by the Group and it still has a substantial cash balance. Should it be required, the Group could seek external debt, however, at present management have no plans or requirements to do so.

On 23 March 2020, the Group decided to close all its retail stores and drive thru lanes in the UK with the exception of c.60 stores in NHS hospitals which remained safely open. Many Express machines remained in operation as they are situated in 'essential' stores such as petrol stations. In April 2020, stores were slowly re-opening in the UK, initially with two drive thru stores on 22 April 2020 followed by 2 retail stores on 24 April 2020 offering delivery only. From May 2020 onwards further Drive thru lanes, delivery only stores and take-away only stores re-opened. The UK business model and main cash generating business unit has remained resilient to COVID-19 and as at the end of June 2020 over 1,100 stores were open. Eat-in options were available at c.1000 stores from 16 July 2020 onwards.

To enable the safe opening of stores and drive thru lanes, the Group put in place social distancing measures for employees that align to Government recommendations. The Group also enhanced hygiene procedures and adapted operations such as contactless payments, PPE, and providing designated pick-up points for delivery drivers to allow the Group to continue serving great coffee, as safely as possible.

In forming their view on going concern, the Directors considered the Group's strategic plan, balance sheet position and forward-looking forecasts, which covered the period to 31 December 2021. Specifically, the following scenarios were prepared:

- The base case position was prepared which included management's assumptions and estimates formulated through experience of the March to June 2020 lockdown.
- Severe but plausible scenarios were prepared based on the above base case, which then included sensitivity analysis over revenues from July 2020 to December 2021.
- In addition, the Directors considered a stress test to determine the extent that revenue would need to decline throughout the forecast period for liquidity to be fully eroded.

The key sensitivities and mitigations reflected in the severe but plausible downside scenario are:

- Sales volumes reduced to approximately 80% of the base case scenario to 31 December 2021.
- Reduced Capital Expenditure and marketing spend: whilst the absolute value of spend was reduced versus plan, the Group is committed to its growth plan and is forecasting to continue to invest in capital expenditure primarily for Express Machines, retail stores and IT systems. However, if there is a further downturn in the market, the Group has the ability to reduce Capex and marketing expense by 50% and remain cash positive
- Government support by using the job retention scheme, taking advantage of business rate relief schemes and deferral of VAT and Tax payments

## **COSTA BEIJING LIMITED**

### **Directors' Report for the 43 Weeks Ended 31 December 2019**

#### **Going concern (continued)**

Whilst not reflected in the forecasts, the Directors noted that they could utilise an undrawn £30m overdraft facility as an additional mitigation if required.

After taking into consideration the circumstances described above, the financial statements have been prepared on the assumption that the Group is a going concern.

#### **Events after the balance sheet date**

Shortly after the end of the financial period, the COVID-19 pandemic emerged as a major socio-economic and business event. The Company's strategic response to the pandemic is laid out in the Strategic Report

On 23rd March 2020 all Costa stores temporarily closed except for a small percentage supporting key workers were shut following government announcements. While stores were closed furlough was claimed from the government for those colleagues impacted and additional cost saving measures were put in place across marketing, IT and other discretionary cost lines. During the closure period Costa fitted all stores with protective screens, other appropriate PPE and redesigned stores to meet social distancing requirements. The number of stores that could use collect or delivery from our digital services was also significantly increased.

Our stores opened on a phased basis from May with the majority of stores open by August. Upon resumption of trade our Drive Thru estate showed strong performance as were the easiest channel for our customers to get their Costa products in a way which reflected the current consumer environment. Our participation of collect and delivery also increased from pre-COVID levels. Within the Express channel the majority of our machines traded throughout the lockdown period as petrol stations and convenience stores remained open, the machines traded robustly as one of the few ways to get a quality coffee.

The Group has continued to trade throughout 2020 using its cash reserves. The directors consider COVID-19 to be a non-adjusting event but it could have a material impact on the Group's turnover, asset recoverability and results for the year ending 31 December 2020.

There are no other post balance sheet events that would require an adjustment or disclosure in the financial statements.

#### **Directors' liabilities**

A qualifying indemnity provision (as defined in section 236(1) of the Companies Act 2006) is in force for the benefit of the directors for the year ended 31 December 2019 and remains in place at the date of this report.

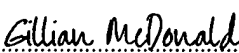
#### **Disclosure of information to the auditors**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

#### **Appointment of auditor**

The Company reviews and makes recommendations each year in accordance with section 486 of the Companies Act 2006 with regards to the appointments of external auditors. Following the Annual General meeting Ernst & Young LLP were appointed as the external auditors with the effect from 2 March 2020.

Approved by the Board on 23 December 2020 and signed on its behalf by:

  
.....  
G McDonald  
Director

## **COSTA BEIJING LIMITED**

### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the Annual 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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 COSTA BEIJING LIMITED**

### **Opinion**

We have audited the financial statements of Costa Beijing Limited for the period from 1 March 2019 to 31 December 2019, which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. 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.

### **Emphasis of matter – Effects of COVID-19**

We draw attention to Directors assessment of Going Concern, notes 1 and 17 of the financial statements, which describes the economic and social consequences the Company is facing as a result of COVID-19, which is impacting finances, supply chains, consumer demand and personnel available for work. Our opinion is not modified in respect of this matter.

### **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 COSTA BEIJING LIMITED (continued)**

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's 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 respect of these matters.

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 the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinion on other matter 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 not identified material misstatements in the strategic report or 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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COSTA BEIJING LIMITED (continued)**

### **Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are 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.

### **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 <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

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

*Ernst & Young LLP*

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Joanne Mason  
(Senior statutory auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
Luton

Date: 23 December 2020

**COSTA BEIJING LIMITED****Income Statement for the 43 Weeks Ended 31 December 2019**

		<b>43 weeks ended 31 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
	Note		
Operating income		<u>(30)</u>	<u>38</u>
<b>Operating (loss)/profit</b>	4	(30)	38
Finance income	6	49	141
Finance costs	7	<u>-</u>	<u>(193)</u>
		<u>49</u>	<u>(52)</u>
<b>Profit/(loss) before tax</b>		<b>19</b>	<b>(14)</b>
Tax expense	9	<u>(23)</u>	<u>(17)</u>
<b>Loss for the year</b>		<u><b>(4)</b></u>	<u><b>(31)</b></u>

The above results were derived from continuing operations.

There are no items to be included in the Statement of Comprehensive Income and accordingly a separate Statement of Comprehensive Income has not been presented.

The notes on pages 13 to 22 form an integral part of these financial statements.

**COSTA BEIJING LIMITED****Balance Sheet**  
as at 31 December 2019

	Note	31 December 2019 £ 000	28 February 2019 £ 000
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	10	4,438	5,167
<b>Current assets</b>			
Cash and cash equivalents		2,036	1,295
Trade and other receivables	11	<u>33</u>	<u>55</u>
		<u>2,070</u>	<u>1,350</u>
<b>Total assets</b>		<b><u>6,508</u></b>	<b><u>6,517</u></b>
<b>Current liabilities</b>			
Trade and other payables	12	(7,170)	(7,178)
Income tax liability	9	<u>-</u>	<u>3</u>
		<u>(7,170)</u>	<u>(7,175)</u>
<b>Net assets</b>		<b><u>(662)</u></b>	<b><u>(658)</u></b>
<b>Equity</b>			
Profit and loss account		<u>(662)</u>	<u>(658)</u>
<b>Total equity</b>		<b><u>(662)</u></b>	<b><u>(658)</u></b>

Approved by the Board on 23 December 2020 and signed on its behalf by:

*Gillian McDonald*  
.....  
G McDonald  
Director

Company Number : 6190419

**COSTA BEIJING LIMITED****Statement of Changes in Equity for the 43 Weeks Ended 31 December 2019**

	<b>Retained earnings £ 000</b>	<b>Total £ 000</b>
At 2 March 2018	(627)	(627)
Loss for the period	<u>(31)</u>	<u>(31)</u>
Total comprehensive loss	<u>(31)</u>	<u>(31)</u>
<b>At 28 February 2019</b>	<b><u>(658)</u></b>	<b><u>(658)</u></b>

	<b>Retained earnings £ 000</b>	<b>Total equity £ 000</b>
At 1 March 2019	<u>(658)</u>	<u>(658)</u>
Loss for the year	<u>(4)</u>	<u>(4)</u>
Total comprehensive income	<u>(4)</u>	<u>(4)</u>
<b>At 31 December 2019</b>	<b><u>(662)</u></b>	<b><u>(662)</u></b>

## **COSTA BEIJING LIMITED**

### **Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)**

#### **1 General information and basis of preparation**

The Company is a private company limited by share capital, incorporated and domiciled in United Kingdom.

The address of its registered office is:

Costa House,  
Houghton Hall Business Park,  
Porz Avenue, Houghton Regis,  
Dunstable,  
Bedfordshire,  
LU5 5YG

These financial statements were authorised for issue by the Board on 23 December 2020.

#### **Basis of preparation**

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards.

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council (FRC). The financial statements have therefore been prepared in accordance with FRS 101.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of The Coca-Cola Company. These financial statements are available upon request from The Coca-Cola Company, PO Box 1734, Atlanta, Georgia 30301, United States of America.

The financial period represents 43 weeks to 31 December 2019 (prior financial period: 52 weeks to 28 February 2019). The Company is reporting a 43 weeks financial period ended 31 December 2019, to enable its year end to align with its controlling counterpart The Coca-Cola Company, which acquired the business in January 2019.

The financial statements are presented in pounds sterling, which is the functional currency, and all values are rounded to the nearest thousand except when otherwise stated.

#### ***Summary of disclosure exemptions***

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of The Coca-Cola Company.

#### ***Going concern***

In order to support the Directors' assessment of going concern, the Company has received a parental letter of support from Costa Limited. This confirms that Costa Limited will support the company as necessary to meet its liabilities as they fall due and has the ability to do so for at least 12 months after the date of these financial statements. As a result, the directors have concluded that it is appropriate to adopt the going concern basis of accounting in preparing these annual financial statements.

In forming this conclusion, the Directors have considered the going concern assessment prepared by the directors of Costa Limited.

The notes on pages 13 to 22 form an integral part of these financial statements.

## COSTA BEIJING LIMITED

### Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

#### 1 General information and basis of preparation (continued)

##### *Going concern (continued)*

The Directors of Costa Limited have undertaken a thorough assessment of Costa Limited and its UK domiciled subsidiaries (the Group) financial forecasts to end of 2021, including the impact of COVID-19 in the UK. As the Group has a cash-pooling arrangement with financial support provided from Costa Limited to its UK Domiciled subsidiaries, the going-concern assessment has been conducted on a Group basis. The Group has modelled downturn scenarios which have been detailed below that include mitigations reducing discretionary marketing and capital spend and, where appropriate, utilising government support for furloughed colleagues and deferring VAT and tax payments. As a result of the modelling, the Directors have deemed it appropriate to adopt the going-concern basis in the preparation of the financial statements of the Company for the financial period ended 31 December 2019.

The Group is funded by its operating profits and working capital improvements. As at 31 December 2019, the Group held a substantial cash balance of £317m and had no external borrowing. Despite the strong position of the Group's financial position, it has become clear that COVID-19 has introduced a significant amount of economic uncertainty in 2020 for the retail and hospitality sectors, which has impacted the Group's ability to generate revenue and profit. As at the date of signing, there remains no external debt facilities drawn down on by the Group and it still has a substantial cash balance. Should it be required, the Group could seek external debt, however, at present management have no plans or requirements to do so.

On 23 March 2020, the Group decided to close all its retail stores and drive thru lanes in the UK with the exception of c.60 stores in NHS hospitals which remained safely open. Many Express machines remained in operation as they are situated in 'essential' stores such as petrol stations. In April 2020, stores were slowly re-opening in the UK, initially with two drive thru stores on 22 April 2020 followed by 2 retail stores on 24 April 2020 offering delivery only. From May 2020 onwards further Drive thru lanes, delivery only stores and take-away only stores re-opened. The UK business model and main cash generating business unit has remained resilient to COVID-19 and as at the end of June 2020 over 1,100 stores were open. Eat-in options were available at c.1000 stores from 16 July 2020 onwards.

To enable the safe opening of stores and drive thru lanes, the Group put in place social distancing measures for employees that align to Government recommendations. The Group also enhanced hygiene procedures and adapted operations such as contactless payments, PPE, and providing designated pick-up points for delivery drivers to allow the Group to continue serving great coffee, as safely as possible.

In forming their view on going concern, the Directors considered the Group's strategic plan, balance sheet position and forward-looking forecasts, which covered the period to 31 December 2021. Specifically, the following scenarios were prepared:

- The base case position was prepared which included management's assumptions and estimates formulated through experience of the March to June 2020 lockdown.
- Severe but plausible scenarios were prepared based on the above base case, which then included sensitivity analysis over revenues from July 2020 to December 2021.
- decline throughout the forecast period for liquidity to be fully eroded.



## **COSTA BEIJING LIMITED**

### **Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)**

#### **1 General information and basis of preparation (continued)**

##### *Going concern (continued)*

The key sensitivities and mitigations reflected in the severe but plausible downside scenario are:

- Sales volumes reduced to approximately 80% of the base case scenario to 31 December 2021.
- Reduced Capital Expenditure and marketing spend: whilst the absolute value of spend was reduced versus plan, the Group is committed to its growth plan and is forecasting to continue to invest in capital expenditure primarily for Express Machines, retail stores and IT systems. However, if there is a further downturn in the market, the Group has the ability to reduce Capex and marketing expense by 50% and remain cash positive
- Government support by using the job retention scheme, taking advantage of business rate relief schemes and deferral of VAT and Tax payments

Whilst not reflected in the forecasts, the Directors noted that they could utilise an undrawn £30m overdraft facility as an additional mitigation if required.

After taking into consideration the circumstances described above, the financial statements have been prepared on the assumption that the Group is a going concern.

#### **2 Accounting policies**

##### **Finance income/(costs)**

Finance income is recognised as the interest accrues, using the effective interest method.

Finance costs are recognised as an expense in the period in which they are incurred.

##### **Income tax**

The income tax charge represents both the income tax payable, based on profit for the year and deferred income tax.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are charged or credited directly to equity. Otherwise, income tax is recognised in the income statement.

Deferred income tax is recognised in full, using the liability method, in respect of temporary differences between the tax base of the Company's assets and liabilities and their carrying amounts that have originated but have not been reversed by the balance sheet date. No deferred tax is recognised if the temporary difference arises from goodwill, or the initial recognition of an asset or liability, in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred income tax is recognised in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part of, the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The notes on pages 13 to 22 form an integral part of these financial statements.

## **COSTA BEIJING LIMITED**

### **Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Investments**

Investments in securities are classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment.

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### **Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

##### **Financial instruments**

###### **Initial recognition**

Financial assets and financial liabilities comprise all assets and liabilities reflected in the balance sheet, although excluding Tangible assets, investment properties, intangible assets, deferred tax assets, prepayments, deferred tax liabilities and employee benefits plan.

The Company recognises financial assets and financial liabilities in the statement of financial position when, and only when, the Company becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and financial liabilities classified as fair value through profit or loss ("FVTPL") are recognised on the trade date, i.e. the date on which the Company commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the marketplace.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

## **COSTA BEIJING LIMITED**

### **Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Classification and measurement**

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

##### **Financial assets at amortised cost**

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:-

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

If a financial asset meets the amortised cost criteria, the Company may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

## **COSTA BEIJING LIMITED**

### **Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Financial assets at fair value through other comprehensive income (FVTOCI)**

A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:-

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investments that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

##### **Financial assets at fair value through the profit or loss (FVTPL)**

Financial assets not otherwise classified above are classified and measured as FVTPL.

##### **Financial liabilities at amortised cost**

All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

##### **Financial liabilities at fair value through the profit or loss**

Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

#### **2 Key accounting judgements and estimates**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported as assets and liabilities at the balance sheet date and the amounts reported as revenues and expenses during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates. In the process of applying the Group's accounting policies, the Directors have considered whether there are any such sources of estimation or critical accounting judgements in forming the financial statements and do not consider there to be any for the purposes of disclosure.

**COSTA BEIJING LIMITED****Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019  
(continued)****3 Operating profit**

Arrived at after (crediting)/charging

	<b>43 weeks ended 31 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
<i>Included in administrative expenses:</i>		
Overseas business tax	(16)	(13)
Foreign exchange loss	(14)	51
	<u>(30)</u>	<u>38</u>

**5 Staff costs**

The Company has no employees (28 February 2019: no employees) other than the directors, who did not receive any remuneration (28 February 2019: £nil). All fees paid to directors as remuneration are borne by Costa Limited and it is not practical to allocate the amount for services in respect of this Company.

**6 Finance income**

	<b>43 weeks ended 31 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
Other finance income	<u>49</u>	<u>141</u>

**7 Finance costs**

	<b>43 weeks ended 31 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
On amounts due to group undertakings	<u>-</u>	<u>193</u>

Finance costs have not accrued on amounts due to group undertakings since 3 January 2019, as further detailed in note 12.

**8 Auditors' remuneration**

Audit fees for the year of £10,000 were borne by Costa Limited (28 February 2019: £1,000 paid by Costa Limited).

The notes on pages 13 to 22 form an integral part of these financial statements.

**COSTA BEIJING LIMITED****Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019  
(continued)****9 Taxation**

Tax charged in the income statement

	<b>43 weeks ended 31 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
<b>Current income tax</b>		
UK corporation tax for the period	-	(3)
Foreign tax	<u>23</u>	<u>20</u>
<b>Total tax charge in the income statement</b>	<u><u>23</u></u>	<u><u>17</u></u>

The total tax charge on the profit for the period is higher than the standard rate of corporation tax in the UK of 19%.

The differences are reconciled below:

	<b>43 weeks ended 31 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
Profit/(loss) before tax	<u>19</u>	<u>(14)</u>
Corporation tax at standard rate	-	(3)
Decrease in current tax from adjustment for prior periods	-	-
Foreign tax credits	<u>23</u>	<u>20</u>
<b>Total tax charge</b>	<u><u>23</u></u>	<u><u>17</u></u>

The corporation tax balance is an asset of £ nil (28 February 2019: receivable of £3,000).

**COSTA BEIJING LIMITED****Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019  
(continued)****10 Investments****Joint ventures**

	Loans to joint ventures £ 000	Investment in joint ventures £ 000	Total £ 000
<b>Cost or valuation</b>			
At 1 March 2019	2,297	2,700	4,997
Interest on loan	(574)	-	(574)
Foreign exchange movement	15	-	15
At 31 December 2019	<u>1,738</u>	<u>2,700</u>	<u>4,438</u>
<b>Carrying amount</b>			
At 31 December 2019	<u>1,738</u>	<u>2,700</u>	<u>4,438</u>
At 28 February 2019	<u>2,467</u>	<u>2,700</u>	<u>5,167</u>

Details of the joint ventures as at 31 December 2019 are as follows:

Name of joint ventures	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			31 December 2019	28 February 2019
Hualian Costa (Beijing) Food & Beverage Management Company Limited	Coffee retailer	Room 520 and 524, 5th floor, East Tower, Sichuan Building, 1 Fu Wai Avenue, Xicheng District, Beijing, China. China	50%	50%

**11 Trade and other receivables**

	31 December 2019 £ 000	28 February 2019 £ 000
Other receivables	<u>33</u>	<u>55</u>

The notes on pages 13 to 22 form an integral part of these financial statements.

**COSTA BEIJING LIMITED****Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019  
(continued)****12 Trade and other payables**

	<b>31 December 2019 £ 000</b>	<b>28 February 2019 £ 000</b>
Accrued expenses	-	1
Amounts due to group undertakings	<u>7,170</u>	<u>7,177</u>
	<u>7,170</u>	<u>7,178</u>

Amounts due to group undertakings are repayable on demand and, prior to 3 January 2019, were subject to a compounding quarterly interest charge. No interest has been charged on the balances since 3 January 2019, whilst the Costa Group, of which the Company is a member, carries out a review of its intercompany lending arrangements following its acquisition by The Coca-Cola Company.

**13 Share capital****Allotted, called-up and fully paid shares**

	<b>31 December 2019</b>		<b>28 February 2019</b>	
	<b>No.</b>	<b>£</b>	<b>No.</b>	<b>£</b>
2 Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

**14 Related party transactions**

The Company is a wholly owned subsidiary of The Coca-Cola Company, the ultimate controlling entity, and has taken advantage of the exemption given in Financial Reporting Standard 101 (8(k)) not to disclose transactions with other group companies.

**15 Parent and ultimate parent undertaking**

The Company's immediate parent is Costa International Limited.

The ultimate parent is The Coca-Cola Company, Atlanta, Georgia, USA.

The smallest and largest parent preparing consolidated financial statements is The Coca-Cola Company.



## **COSTA BEIJING LIMITED**

### **Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)**

#### **16 Parent of group in whose consolidated financial statements the Company is consolidated**

The name of the parent of the group in whose consolidated financial statements the Company's financial statements are consolidated is The Coca-Cola Company.

These financial statements are available upon request from The Coca-Cola Company, PO Box 1734, Atlanta, Georgia 30301, United States of America.

#### **17 Non adjusting events after the financial period**

Shortly after the end of the financial period, the COVID-19 pandemic emerged as a major socio-economic and business event. The Company's strategic response to the pandemic is laid out in the Strategic Report

On 23rd March 2020 all Costa stores temporarily closed except for a small percentage supporting key workers were shut following government announcements. While stores were closed furlough was claimed from the government for those colleagues impacted and additional cost saving measures were put in place across marketing, IT and other discretionary cost lines. During the closure period Costa fitted all stores with protective screens, other appropriate PPE and redesigned stores to meet social distancing requirements. The number of stores that could use collect or delivery from our digital services was also significantly increased.

Our stores opened on a phased basis from May with the majority of stores open by August. Upon resumption of trade our Drive Thru estate showed strong performance as were the easiest channel for our customers to get their Costa products in a way which reflected the current consumer environment. Our participation of collect and delivery also increased from pre-COVID levels. Within the Express channel the majority of our machines traded throughout the lockdown period as petrol stations and convenience stores remained open, the machines traded robustly as one of the few ways to get a quality coffee.

The Group has continued to trade throughout 2020 using its cash reserves. The directors consider COVID-19 to be a non-adjusting event but it could have a material impact on the Group's turnover, asset recoverability and results for the year ending 31 December 2020.

There are no other post balance sheet events that would require an adjustment or disclosure in the financial statements.